82D CONGRESS
2d Session

SENATE

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{No. 2048

STUDY OF STORAGE AND PROCESSING ACTIVITIES OF THE COMMODITY CREDIT CORPORATION

REPORT

OF THE

COMMITTEE ON AGRICULTURE AND FORESTRY

ON THE

STUDY OF STORAGE AND PROCESSING ACTIVITIES OF THE COMMODITY CREDIT CORPORATION

JULY 2 (legislative day, JUNE 27) 1952.—Ordered to be printed with an illustration

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Mr. ELLENDER, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[Pursuant to S. Res. 256]

INTRODUCTION

On September 1 and September 13, 1951, Senator John J. Williams (Delaware) made statements on the floor of the Senate relative to the leasing of certain buildings at Camp Crowder, Mo., to private operators who subsequently stored large quantities of grain for the Commodity Credit Corporation.

As a result of such disclosure, on September 17, 1951, Senator James P. Kem (Missouri), for himself and others, introduced Senate Resolution 210, which reads as follows:

Whereas it has been disclosed in the Senate that the Commodity Credit Corporation of the Department of Agriculture has recently been involved in subleasing from a private concern storage space leased by such concern from the War Assets Administration at Camp Crowder; and

Whereas such private concern has by thus acting as intermediary between two Government agencies made a tremendous profit without the risk of private capital and with commensurate loss to the Government; and

Whereas the last-mentioned loss to the Government came out of price-support funds which are not appropriated and are therefore not subject to effective supervision by the Congress and by the General Accounting Office; and

Whereas it has also been disclosed that 22 past and present employees of the Farm Credit Administration of the Department of Agriculture and of agencies supervised by it in the St. Louis district have been involved in (1) speculation in properties in which the Farm Credit Administration and its agencies were interested and (2) dealings with persons having business with the Farm Credit Administration and its agencies; and

Whereas the activities aforesaid may have been illegal and may bring discredit to, and lessen the public confidence in, the Department of Agriculture and the agencies concerned; and

Whereas it appears likely that the instances aforesaid are not isolated cases: Now, therefore, be it

Resolved, That the Committee on Agriculture and Forestry, or any duly authorized subcommittee thereof, is authorized and directed to make a full and complete study of all activities of officers and employees of the Department of Agriculture which may tend to discredit or lessen public confidence in the Department of Agriculture or any of its agencies and, in particular, to make a full and complete study of the administration of price-support funds with a view to determining

the extent to which officers or employees of the Department of Agriculture have misused such funds or have profited or have permitted others to profit illegally or improperly by the manner in which such funds have been administered. The committee shall report its findings together with its recommendations for such legislation as it may deem advisable to the Senate not later than September 1, 1952.

On September 19, the Committee on Agriculture and Forestry, in executive session, voted to create a subcommittee consisting of Senators Ellender, Johnston of South Carolina, Holland, Humphrey, Aiken, Thye, and Kem, to investigate the matters referred to in Senate Resolution 210. The committee staff was ordered to make preliminary investigations and report back to the committee. On January 18, 1952, the Secretary of Agriculture and the Comptroller General and members of their respective staffs were heard. Comptroller General Lindsay Warren, whose General Accounting Office investigation staff have assisted and been most helpful to the committee throughout, reported on the extent of alleged embezzlements of Commodity Credit Corporation grain in the Dallas, Tex., area by commercial warehousemen.

Following this hearing, which was held primarily to determine the scope of a proposed resolution, the committee recommended the adoption of a resolution which became Senate Resolution 256 and was in due course adopted by the Senate (see hearing record, p. 93). The resolution authorized a full and complete study and investigation of all Commodity Credit Corporation activities relating to storage and processing, with particular reference to alleged irregularities in the Dallas area and to the storage of commodities by the CCC at Camp Crowder, Mo.

The Commodity Credit Corporation is a wholly owned Government corporation created to stabilize, support, and protect farm income and prices; to assist in the maintenance of balanced and adequate supplies of agricultural commodities and to facilitate the orderly distribution thereof. The management of CCC is vested in a board of directors, subject to the general supervision and direction of the Secretary of Agriculture. It operates within the administrative framework of the Production and Marketing Administration of the Department of Agriculture, using PMA facilities and employees. The field operations are handled by eight PMA regional field offices and the PMA State and county committee offices which have a most vital role in the administration of the CCC price-support and storage programs.

In addition to these functions, CCC has from time to time acted as agent of the Department of Defense and of foreign governments in the purchase of vast supplies of agricultural commodities for civilian feeding abroad. The magnitude of CCC's storage operations alone defies comparison with any other operation in the business field. In connection with its price-support and special procurement programs, it has handled in excess of $10 billion in inventory since 1947.

The principal objectives of the investigation and hearings conducted by this committee have been to determine whether there were inadequacies in the Federal law under which the storage program operates; whether deficiencies existed in the policies and procedures of the CCC in the administration of its functions; the effect of State warehousing laws on the administration of the storage program; whether adequate controls were in effect, or installed, to reduce to a minimum

any serious irregularities; and to review, generally, the storage and processing operations of the Commodity Credit Corporation. In carrying out these objectives, the committee, in addition to the special field investigation conducted, has taken sworn testimony from 107 witnesses, covering 4,546 pages of transcript, and has held 28 public hearing sessions from March 19 to June 20, 1952. Although the investigation remained strictly within the scope of Senate Resolution 256, because of the limitations of time and staff, and in view of the size and ramified nature of the CCC storage and processing activities, the committee has concentrated much of its attention on grain handling and storage and such other matters as appeared to require particular attention, rather than attempt a comprehensive study of the processing and storage of all commodities.

The evidence indicates that as of May 1952, there had been embezzlement or criminal conversion of CCC-owned grain inventories by 131 warehousemen aggregating approximately $10,000,000, but no evidence was presented to the committee that any CCC personnel profited personally or were criminally involved in this connection. There have also been heavy losses from deterioration of CCC grain in storage, some of which losses will be borne by private warehousemen and the remainder by CCC.

It was, of course, to be expected that there would be some losses by handling and deterioration in view of the great size of the CCC storage operations and the difficult problems encountered, but the committee has found that administrative deficiencies on the part of CCC and its lack of an appropriate enforcement policy have contributed materially to the losses from both conversion and deterioration; that CCC enforcement policy, or lack of it, provided a temptation to conversion; and that the operational set-up of PMA, particularly at the Washington level and between regional commodity offices and State-county PMA offices could be revised with resultant improvement in the efficiency of the PMA storage operations. It would also appear that the management personnel of CCC has been slow to recognize danger signals and to take corrective action; that CCC has been slow to take adequate measures once shortages and other losses or irregularities occurred; that it has been slow in facing up to certain of the problems of grain storage and inventory control; and that it has failed to recognize the necessity of internal controls and a proper balance between the operating and compliance functions. The top management of CCC has failed to bring in specially trained personnel in warehousing, inventory control, and other important fields to cope with the unprecedented problems as they developed, and to furnish a better balance of administrative management. It has been too tolerant of inefficiency in responsible positions and of occasional irregularities on the part of its own employees. The CCC has, at times, expanded to unprecedented proportions due to functions imposed upon it, without adequately tailoring its system and procedures to its size. It has become accustomed to performing prodigious tasks, but has failed to recognize infirmities of growth and the losses and other serious effects which they brought about.

It is these matters which are of real concern to this committee and to which the greater portion of the hearings has been devoted. The complete detailed record of the committee's investigation is set forth

in the printed hearings of the committee. This report proposes only to summarize the major points developed and to state the findings and recommendations of the committee.

Certain CCC and Department officials have pointed out that some of the difficulties which CCC encountered were accentuated by its personnel ceiling and the lack of funds. They also, at times with some heat, have defended practically everything that has been done by CCC as proper, and have contended that apparent errors, oversights, failures to adapt to particular circumstances, and other incidents which obviously have been the cause of substantial losses, are isolated occurrences in the great volume of operations and should be considered merely that. The record does not bear this out. This is not to say that the CCC has not done a tremendous job in spite of its deficiencies. The committee is, as everyone should be, quite mindful that no operation of this size can be accomplished without error and does not expect perfection. However, the fact that it has performed the host of difficult duties with which it was charged and that the great majority of its employees deserve much credit for loyal and conscientious effort, is no excuse for certain conditions found to exist.

The farm price-support and storage programs are of such great importance to the country's economy as a whole, as well as to the American farmer, that everything possible should be done to insure maximum efficiency in their administration, free from policies and practices which are a basis for criticism.

The Storage Problem

In order to obtain some appreciation of the size and of the variety and complexity of the problems of the CCC price support and storage programs, the following information is furnished:

The Corporation supports the prices of numerous agricultural commodities in a variety of forms and it is obvious that different types of storage are required. Support is made available directly by the Corporation, or through private banks or other media, by means of loans, purchases, and purchase agreements. The farmer, or producer, when he harvests a crop on which price support is available, may obtain a loan on it at support-price levels rather than take greatly reduced prices, which may be prevailing at harvest time, by pledging the crop as collateral. This is facilitated through his county PMA office. The commodity must be weighed, graded, and placed in a local warehouse, the receipts being turned over to a local lending institution which handles the loan guaranteed by CCC, or, at times, inspected, measured, and stored on the farm. If the market price of the commodity exceeds the support price prior to the maturity of the loan, which is generally in the spring of the next year, the farmer may redeem his crop by repaying the loan. Otherwise, CCC pays the lending agency and takes over the commodity. It is, therefore, apparent that the storage program not only entails the storage of commodities which CCC has taken title to outright, but the seasonal storage of pledged crops.

When CCC takes over ownership, each lot must be inspected, graded, and weighed, as it is placed under storage contract with commercial warehouses or stored in CCC's own bins. The records of such transactions must be kept in the county PMA office, but are also furnished to the regional PMA commodity office of the particular area, which centralizes the record and, in most instances, takes over the responsibility for the commodity. In the case of grain, it is generally stored in country warehouses originally, but there is a general movement toward terminal points and warehouses after the CCC acquires title. The grain is held by CCC until needed. Storage and handling charges must be paid, the transportation functions performed, and, as the grain is sold by CCC, loading-out orders must be issued to the warehouses, each carload, or lot, of grain, inspected and weighed again, settlement made with the warehouseman, etc. Because of the huge amount of grain handled for so many farmers, it is readily apparent that there are literally millions of transactions. CCC may sell the commodity at 105 percent of current support prices, plus carrying charges, except when the commodity is going out of condition or in accordance with other exceptions provided by law. The commodity may be sold at its then market value. While grain, under ideal conditions and with proper handling and preservation methods employed, may be stored for a number of years, there are many practical conditions which limit the length of the safe storage period.

During the war years and immediately thereafter, demand (in the main) was greater than supply and no abnormally large inventories were carried over from year to year. In 1948 and 1949, as the result of two of the largest crops of wheat and corn in the history of the United States and a market price less than the support price, unprecedented take-over inventories were accumulated by CCC which exceeded a billion dollars in the closing months of fiscal year 1949 and reached an all-time high in excess of $2.6 billion by June 1950. This situation glutted the existing storage facilities of the trade, required storage of grain in many emergency facilities which did not have the equipment to turn and properly handle the grain. It also made it necessary for CCC, in 1949, to undertake a program of acquisition and erection of CCC storage bins, particularly for the storage of corn. As of June 30, 1950, the Corporation's investment in price-support commodities was $3,537,000,000, and it had approximately 12,000 commercial warehouses and 3,000 bin-site locations to store its commodities. By liquidation of loans and inventories the Corporation's investment in price-support commodities had been reduced to $1,529,000,000 as of May 31, 1952, the lowest since 1948.

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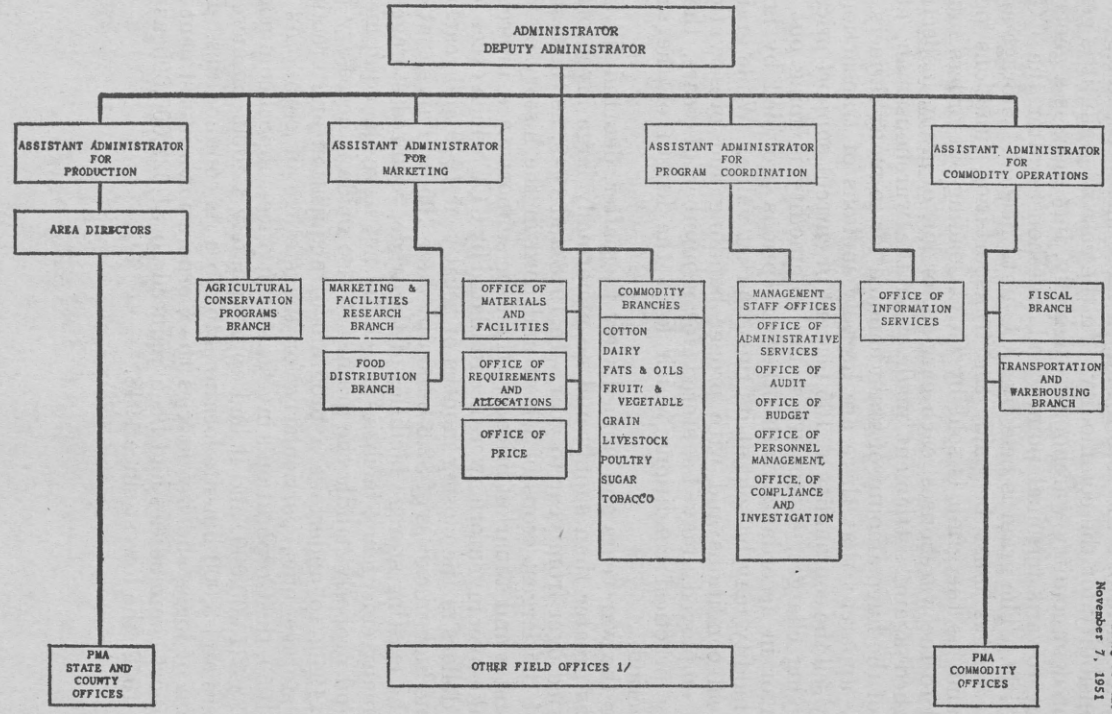
ORGANIZATION OF PRODUCTION AND MARKETING ADMINISTRATION



1/ Various commodity branches; Food Distribution Branch; Transportation and Warehousing Branch; Offices of Information Services, Administrative Services, Audit, Personnel Management and Compliance and Investigation maintain field offices which report to such branches and offices The Aerial Photographic Laboratories report to the Assistant Administrator for Production.

Attachment to PMA Instruction 10[illegible]
November 7, 1951

The Organizational Set-up

As indicated, the Commodity Credit Corporation is operated by the personnel and facilities of the Production and Marketing Administration. A very brief outline of the framework of the organization is set forth below in order that a better appreciation may be gained of the complexity of the operational functioning and to indicate the possible need for revising certain channels of authority and for fixing responsibility more specifically. A chart of the organization is also set forth.

At the Washington level, the Production and Marketing Administration consists of an Administrator, Deputy Administrator, and four Assistant Administrators heading the respective fields of production, marketing, commodity operations, and program coordination. There are 9 commodity branches and 14 functional staff branches or offices.

At the regional level, there are eight commodity offices located at New York, Chicago, Kansas City, Minneapolis, New Orleans, Dallas, San Francisco, and Portland, and at the State level there are the State and county committees. These approximately 3,000 county committees are the cornerstones of the organization. It is they with whom the farmer deals in placing his crop under price support and storage. They are responsible for the price support operation while the commodity is pledged and until it is actually taken over by CCC. These committees, of course, have other important functions in connection with other agricultural programs not related to price support and storage. Their duties with respect to the latter, however, must be coordinated and integrated into the over-all CCC storage operation.

It is indicated that the responsibility for the storage operation is vested in the Assistant Administrator for Commodity Operations, who is assisted at the Washington level by the Transportation and Warehousing Branch in the case of processed commodities, and by the respective commodity branches in the case of other commodities. Prior to July 1, 1951, the Transportation and Warehousing Branch was concerned with storage for essentially all commodities. CCC witnesses were not too explicit as to the reasons why the warehousing functions were removed from the control of the Warehousing Branch and decentralized in the various commodity branches. The arguments for centralization of warehousing functions appear to be specialization of transportation and warehousing know-how, a better balance of organizational control, and elimination of duplication of effort. It was contended for decentralization that storage functions were so intertwined with operational functions, continuity of administration, and record keeping as to make it more desirable to place the responsibility for supervising warehousing functions in each commodity branch. Under either set-up, there would be little difference in the field organizations at the regional and county levels where the functions are carried out.

As the committee's investigation has amply shown that warehousing and storage is a most important phase of the CCC operation requiring the talents of qualified experts, it is suggested that continued study be made of the issue of centralization versus commodity branch control, possibly by management counsel, in connection with an over-all study of CCC operations, to determine the most effective procedure. The committee will desire to hear the results of the final determination and the reasons therefor.

The Transportation and Warehousing Branch also administers the United States Warehouse Act under which warehouses are federally licensed in accordance with standards imposed by law and periodic inspections are made. There are only approximately 1,450 federally licensed warehouses at the present time, although CCC uses in excess of 12,500 warehouses in connection with the storage of its commodities. In view of the high standards imposed by the Warehouse Act, it would appear advisable for CCC to take any steps feasible to encourage more warehouses to become licensed under the United States Warehouse Act, particularly in those States which have weak State warehouse laws.

Storage operations in the field are carried out by the regional commodity offices and the State and county committees. The county committees are primarily concerned with making the loans and the storage of the collateral until the time it is either redeemed or the collateral taken over by CCC. The regional commodity offices are primarily concerned with commodities which have been acquired by takeover. There appears to be an exception to this, in that county committees continue to supervise grain, particularly corn stored locally in CCC-owned bins.

The county and State PMA organizations report directly to Washington, as do the regional offices, and while there appears to be a great intermingling of responsibilities and functions between the State and county offices on the one hand and the regional offices on the other, there are no cross channels of authority. While the regional offices have the ultimate responsibility over the entire inventory, including commodities stored in CCC bins, they lack jurisdiction. Particular instances of the adverse effect of such a lack of clearly defined authority will be cited later in the report. The committee does not profess to have the answer to this difficult problem of more closely coordinating and fixing responsibility between regional and county offices of PMA at the field and Washington levels, but suggests that further study be made of the matter and that a report be made to the committee. While, as has been pointed out, channels of authority at the Washington level may be clearly defined on functional charts from the evidence, the committee gained the impression that in practice this was not the case, and it was difficult to fix clearly responsibility at this level because of what appeared to be loose and confused procedures of operation.

Conversions

As reflected by exhibit 79 (Hearing Record, p. 1662), CCC has reported that over the past 5 years there have been 131 cases of conversion, or indicated conversion, of CCC grain from commercial warehouses, which, if no further recoveries were effected, would result in a loss to the Government, as of May 8, 1952, of $7,819,717.53. This was broken down as follows:

	Number	Amount involved
Cases referred to Justice	68	$6,727,815.28
Cases with implications of conversion not yet referred to Justice	30	578,401.26
Shortage cases under investigation	33	513,464.99

It will be observed that the figures supplied represent book value of the grain. The Department has not included in the figures shown above the amounts which have been recovered through restitution from bonding companies, liquidation, etc. The Department reported that as of June 1952 it had recovered slightly more than $2,000,000 in this manner, which, when added to the figures supplied, will reflect known and indicated conversions developed, as of the date indicated, of inventories having a cost of approximately ten million dollars.

While it has been the Department's estimate that a high percentage of this loss would be recovered through restitution, bonds, liquidation of converters' assets, and suits against the converters and third party purchasers of the stolen grain, from indications to date, it is probable that the Department collected the easiest of the recoveries and the committee will desire a report from time to time showing additional recoveries if any, and the progress being made toward obtaining restitution for the CCC.

The Department has chosen not to divulge the names of the converters other than those cases in which court action has been taken. The list of court action cases is set forth at schedule D of exhibit 79 (hearing record, p. 1663).

While such reticence in furnishing the names of known converters prior to actual court action may be justified, the committee believes that the practice of giving no publicity to known converters, who are eventually able to make restitution, or for other reasons are not prosecuted, is very unsound and was one of the contributing factors to the rash of conversions which occurred. It is suggested that all cases in which conversion has been or will be established, regardless of whether or not restitution is obtained or prosecution issues, should be publicized.

With respect to exhibit 79 and attachments, it should be noted that it purportedly includes all conversion cases within the past 5 years. However, the great majority of the cases listed on these schedules were only referred to the Department of Justice for criminal action in the year 1952.

Exhibit 66 (Record, p. 1415) gives a breakdown of most of the known or indicated grain warehouse conversion cases by PMA commodity offices and the aggregate amounts involved. It will be noted that of the main grain area offices Chicago leads with 43, Dallas has 29, Kansas City 18, and Minneapolis 18.

The record indicates that not all of the conversions of CCC grain which have occurred have been discovered. It might, however, be reasonable to conclude that the substantial majority of dollar losses by conversion have been uncovered. The warehouses in the Dallas regional office area, which had the greatest loss dollarwise, received a comprehensive check, while in the three other offices mentioned, there was merely a sampling check of the warehouses storing CCC grain. D. J. Harrill, Chief, Office of Audit, PMA, testified that of 302 warehouses audited in the Dallas region, 16 percent were found to be substantially short CCC grain; that in the audits which were conducted in the Minneapolis area, 13 percent were found to be short, in the Chicago area, 10 percent, and in the Kansas City area, 6 percent. However, less than 5 percent of the warehouses in these latter three offices were checked, and there were only negligible sampling checks made of the warehouses in the other four regional areas. Accordingly, it is possible that a substantial additional number of conversion cases

exist which have not been uncovered, although it is indicated that many of the States in the Minneapolis, Chicago, and Kansas City areas where a large percentage of the grain is stored have better State warehousing laws than prevail in some of the States in the Dallas area.

Failure to take cognizance of the impending conversion storm

While CCC was placed on notice by a few large conversions coming to light as early as 1948 and 1949, it took no action to institute "quantity" inspections and failed to take the type of enforcement action which at such an early date might have had a strong deterrent effect. In 1948, the Lemoore Grain & Storage Co. of California converted CCC pledged barley with a potential loss of a quarter of a million dollars to the Corporation. There was a State prosecution, but PMA as late as January 1952 had taken no action to remove its own field representative responsible for issuing an improper certificate to producers of ineligible barley or taken action to recover from the ineligible producers. Early in 1949, it came to light that 14 warehouses in the Minneapolis area had converted CCC flaxseed worth $150,000. Upon restitution, CCC failed to refer these cases to Justice for consideration and later reinstated the warehouses for further contracts with CCC. Other cases where it failed to take action in criminal matters will be discussed later in this report.

In its storage of grain with commercial warehouses, it was customary for CCC to enter into a uniform grain storage agreement, a standard form which has been revised from time to time. This contract, particularly in the case of grains other than corn, provided for the storage of the grain on a commingled basis, the warehouseman being responsible for the quantity and quality of the grain turned over to him. This method of storage appears to have been satisfactory during normal times when CCC was using established warehouses and when only a normal inventory of grain was on hand which was moved out in due course. CCC made no inspections of its grain in view of the warehouseman's liability for producing the quantity and quality of the grain which was placed in storage with him. A bond of 5 cents per bushel was required by the contract. This amount was in conformity with trade practice and reportedly was fixed when wheat was selling at 60 cents a bushel. If the financial status of the warehouseman was inadequate, as indicated by his statement, a larger bond was required. There is also a provision in the CCC charter which makes it a criminal offense for a warehouseman to convert grain, regardless of the provisions of the State law.

During the unprecedented period of 1949 and 1950, it was necessary for the CCC to employ large numbers of additional personnel to handle the tremendous storage program which resulted. However, additional enforcement procedures and controls were not set up. This, in the face of the fact that a large number of firms never used before were employed, and emergency facilities not particularly adapted for storing grain were pressed into use.

The evidence would indicate that CCC was cognizant of the fact that certain States had strong warehousing laws entailing inspection by State inspectors and a high standard of performance on the part of the warehouseman, thus minimizing loss through conversion, but it failed to take steps through its own processes to protect itself in States which had weak warehousing laws with little or no inspection service.

At the preliminary hearing held by this committee in January 1952, the Secretary of Agriculture advised that the cost of an inspection service for the some 12,000 warehouses in which CCC stored grain, comparable to that given warehouses operating under the United States Warehouse Act, would have been prohibitive and would far exceed any losses incurred through embezzlement of CCC inventories; yet, it took only a small group of PMA auditors a few months—in the summer and fall of 1951—to make a position check against outstanding warehouse receipts on all the commercial warehouses storing grain for CCC in the Dallas regional area.

It appears that it was not until July 1951, that the CCC first became sufficiently concerned to take action with respect to the conversion situation, except on a case-to-case basis. It is indicated that in June both the General Accounting Office and the Office of Audit, PMA, conducted audits in the Dallas Commodity Office; that a large number of long delinquent loading-out orders for grain were found not to have been complied with. That discussions took place between GAO and the PMA Office of Audit with respect to the numerous reports of shortages and the advisability of checking the inventory status of non-federally-licensed warehouses in the Dallas area; and that the Office of Audit of PMA, in July 1951, undertook to make a physical inventory check on all of the warehouses storing CCC grain in the Dallas area. As indicated, this occurred in July and August 1951, and resulted in the discovery of 49 cases of shortages.

The PMA Office of Audit merely checked the warehouseman's position on a certain day by matching the warehouse certificates outstanding with the physical quantity of grain in the warehouse bins. The shortage cases were referred to the Dallas Office of Compliance and Investigation as it was necessay to conduct a detailed inquiry in proving conversion, which entailed the reconstruction of the elevator operator's records to determine when he first went short, the extent of the shortage during different periods, where the grain went, etc.

The Dallas situation

The first large-scale discovery of conversions developed in the Dallas area. The General Accounting Office, which had been conducting an investigation in the Dallas area since November 1951, published its initial report early in January and there was considerable publicity with respect to the conversions, which aggregated in excess of $3,000,000.

Latham White and Harry J. Solomon, the Director and Assistant Director of the Dallas PMA Office, were discharged early in January of 1952 for failure to conduct their office properly. White and Solomon testified before this committee. The evidence disclosed that the Dallas office was very lax in following up failures to comply with loading out orders, some of which were as much as 10 months old, and the warehouseman had confessed conversion before the commodity office referred the matter to the Compliance and Investigation office for investigation. White testified that his office had made a number, between 5 and 15, of storage payments to warehouses after stop orders had been placed on their accounts due to indications of conversion or failure to comply with loading-out orders. He stated that while his office may have been lax in properly following up loading-out orders, this did not facilitate the shortages, but that the lack of

inspectors did, and that he had only one inspector to check $400,000,000 in inventory. It was also indicated that although he had attempted as early as June 1951 to obtain a more concrete policy from Washington with respect to action to be taken in the conversion cases such a policy was not forthcoming until the Policy Directive of October 26, 1951 (see record, p. 121). He indicated that between February and August 1951, his office referred 12 cases of indicated conversions for investigation to Compliance and Investigation, but that this office was a bottleneck because of shortages of personnel and had only completed two cases by January 1952.

Staff members of this committee, in connection with their study of cases in the Dallas regional office, found various phases of the operation divided into different groups, which kept separate decentralized records, and had poor coordination and exchange of information between groups. The General Accounting report reflected a weak policy of enforcement, laxity with respect to following up unfilled loading-out orders, leniency to warehousemen who requested delays and two cases where CCC even sold grain to warehouses to cover load-out orders, after they should have been on notice.

While the record definitely indicates that Messrs. White and Solomon may have been dilatory in taking sufficiently forceful action on their own, there is no evidence of willful wrongdoing on their part, and it would appear that they were in part victims of a weak system.

Enforcement policy which existed in PMA prior to 1952

In order to compare the prompt enforcement action taken by CCC since the beginning of 1952 with the inaction, delays, inefficiency, and policies prevailing previously, it is necessary to summarize briefly the enforcement policies which existed in PMA prior to the publicity and investigations occasioned by the disclosures of widespread CCC grain conversions.

By letter dated February 16, 1943, because of the wartime emergency and dearth of personnel, the Department of Justice delegated to the Solicitor's office, Department of Agriculture, the authority to screen criminal cases arising incident to that Department's operation, setting up certain standards and, in effect, giving Agriculture authority to send to the Justice Department for action only those cases which it saw fit. (See exhibit 82, record, p. 1751.) This was a wartime delegation but, by letter dated March 25, 1949, from Alexander Campbell, then Assistant Attorney General in charge of the Criminal Division, to the present Solicitor of the Department of Agriculture, the Solicitor was given indefinite continuing authority to screen criminal violation cases. (Exhibit 83, record, p. 1754.) In the opinion of this committee, this was not a proper delegation, as it shifted to the Department of Agriculture a responsibility with which the Attorney General is charged by law, and placed the Department of Agriculture in the position of reviewing all criminal matters which arose incident to its own activities and making the determination as to whether any action would be taken.

The record will reflect that the Agriculture Solicitor's office was only able to allot approximately 10 percent of the time of its staff to over-all CCC matters and a very small fraction of this 10 percent to the review of criminal cases. From the evidence, it might appear that of such cases as were referred to the Solicitor's office for review,

that office not only assumed the authority of the Attorney General, but, generally that of the judge and jury, all doubts being resolved in the favor of the violator. The exact extent to which such a weak enforcement policy contributed to failure to deter conversions and other violations arising incident to the CCC program is hard to measure, but it is readily apparent that failure to refer for prosecution very substantial cases of criminal fraud, delays in referrals of a year or so after civil settlement and, in most instances, referral only after congressional investigations had been instituted, did not create a salutary effect. Specific examples of delays and mishandling of criminal matters will be discussed later in this report. During the hearings being conducted by this committee, the Department of Justice, by letter dated May 13, 1952, revoked the Department's screening authority in criminal cases (exhibit 84, record, p. 1786). The committee heartily endorses this action. It is recognized that in the great volume of business transactions by CCC there may be numerous minor violations involving small amounts which, by proper coordination between the Departments of Justice and Agriculture, could be handled on other than an individual basis, but, certainly, all violations of substance should be referred to the independent Department for review and appropriate action.

A policy prevailing in CCC which was quite as serious in its consequences as the treatment given criminal matters by the Solicitor's office was the practice of "screening" criminal cases at various levels of authority all the way down through the operation of CCC by the operating personnel. The Office of Compliance and Investigation of PMA, which, as its name suggests, should have the function of investigating irregularities and criminal matters and conducting surveys to detect and keep to a minimum such irregularities, appears to have been understaffed, reporting to a low echelon of authority, and dominated by the operating management. Although its professional staff members were, in the main, attorneys and CPA's who were specialists in the field of criminal investigations, it had no authority to make recommendations as to the action to be taken. There is even evidence that the regional directors upon receiving restitution from the converter have called off investigations of large conversions after they had instructed Compliance and Investigation to conduct such an investigation.

It was the policy, prior to January 1952, for the Office of Compliance and Investigation to supply copies of its reports only to the area regional director or corresponding State PMA head and the PMA commodity branch in Washington concerned. It was left with the regional director, more often one of his assistants, to make the determination whether the case should be referred to the regional attorney. If the case was referred to the regional attorney, he in turn determined whether it should be forwarded to the Solicitor for screening. The Compliance and Investigation Office, which had an intimate command of the facts and whose personnel were specialists in evidence in criminal violations, had no say as to the action to be taken. There are many indications that criminal matters were quashed at the regional level, particularly if a civil settlement was effected. This was done under a policy whereby if restitution could be obtained, no referral for criminal action would be made except in most aggravated cases. Apparently no consideration was given to the civil fraud

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aspects of these cases under the civil frauds section requiring double damage and penalties, or to the ultimate effect of such an enforcement policy. It was not until January 1952 that a policy was instituted which provided for the regional attorneys in the field to receive a copy of the Compliance and Investigation reports directly and permitted them to refer the cases directly to the local United States attorney. The committee has certain recommendations on these policies which will be set forth at the end of this report.

The Compliance and Investigation Office, because of its lack of both manpower and authority, conducted a negligible amount of investigations on its own initiative and only did what it was told to do. Nor was it able to conduct adequate surveys of various phases of the Corporation's operation to determine appropriate internal checks and controls. This, of course, is a most unhealthy situation in a program operation of the type of the Commodity Credit Corporation, and failure of the top management to recognize the need for a stronger and more autonomous Compliance and Investigation Unit is an illustration of the weaknesses existing in management. It is believed that the rash of conversions illustrates the consequences attending such weaknesses.

G. D. Bradley, director, PMA commodity office, Chicago, Ill., testified before this committee. He stated that he attributed the seriousness of the conversion situation to the lack of a strong enforcement policy.

A letter dated April 17, 1951, from James A. Cole, director, Minneapolis PMA office, to Regional Attorney F. A. Gallagher, Chicago, Ill. (see record, p. 626), referred to a case of conversion of mortgaged collateral and states as follows:

> Although it appears that there has been conversion and that conversion continues, we prefer that the matter be handled as a civil case unless your office wishes to make a recommendation for criminal action. There are so many cases of conversion of mortgage collateral in our area that we feel it not only impractical but actually damaging to the farm program to bring criminal action in every case of known conversion.

While the committee's investigation determined that the situation with respect to conversion by farmers and producers was not as serious as indicated in Mr. Cole's letter, it serves as another example of the weak attitude toward enforcement.

It appears that while the Office of Audit may have been in a somewhat better position than the Office of Compliance and Investigation insofar as calling attention to deficiencies and irregularities which it uncovered, there are indications that this office also lacked the necessary authority and manpower to give the proper balance to the operation as a whole.

Specimen warehouse conversion cases reflecting deficiencies in administration and enforcement

Tanner's, Inc., Cortez, Colo., and Gallup, N. Mex.—Through Harold E. Tanner, president, this company entered into an agreement with CCC to store pinto beans beginning October 1, 1948, in warehouses in New Mexico and Colorado. It was disclosed that he began converting as early as May 1949, but was not discovered until November 1950. Tanner's facilities, being licensed under the United States Warehouse Act, required regular inspections. The warehouses were

inspected four times by United States Warehouse Act inspectors before the embezzlement, amounting to approximately $972,000, was detected. The inspectors allegedly failed to determine the shortage due to the fact that the Kansas City PMA commodity office had returned to Tanner the United States warehouse receipts (required under the act) and permitted him to issue another type of receipt (Rocky Mountain). This action on the part of the Kansas City PMA office was in direct violation of the United States Warehouse Act. Apparently, there was no exchange of information between the CCC personnel and the United States Warehouse Act people, although the Warehouse Act was administered in one of the headquarters branches of PMA. Tanner testified before this committee that he was able to convert the beans because of the use of the Rocky Mountain receipts and because there was no check by CCC. He stated that there appeared to be friction between CCC personnel and the United States warehouse inspectors. H. S. Yohe, Chief, United States Warehouse Division, Transportation and Warehousing Branch, PMA, testified he had never been able to ascertain who it was in the Kansas City commodity office that was responsible for the substitution of the warehouse receipts. Tanner was indicted in Colorado on October 12, 1951, and in New Mexico on January 25, 1952. He has pleaded guilty but has not been sentenced.

Page Milling Co., Luray, Va.—In July 1950, this company, which stored wheat for CCC under a uniform grain storage agreement, reported to CCC conversion of CCC inventory in the approximate amount of $44,000 and requested time to borrow money to make restitution. Civil settlement was finally effected in January 1951, by the payment of approximately $40,000 in cash and by allowing $4,000 credit for storage charges. The Compliance and Investigation report was dated in September 1950, but the case was not referred to Justice by the Solicitor's office until January 18, 1952, and then only against William C. Harnsberger, the treasurer of the company, who, in a statement to the Compliance and Investigation Office in 1950, admitted the conversion and advised that all officers of the company had knowledge thereof. It appears that the Solicitor's office ignored the statement of Harnsberger involving the other officials and without additional investigation relied on a volunteered letter from the president stating that no other officers were involved. It did not recommend prosecution of other officers or the company, and, in July 1951, sanctioned the execution of a new uniform grain storage agreement with said company. Harnsberger, upon indictment, pleaded guilty. The committee staff developed additional evidence which might indicate knowledge and involvement on the part of other officers of the company and the matter is being referred to the Department of Justice for appropriate action.

Charles Ray Warehouse, Sycamore, Ga.—This case involved the embezzlement of CCC stored commodities and fraud which amounted to a claim of approximately $45,000, including false billing charges. The Compliance and Investigation report was dated March 17, 1950. Mr. Hunter, the Solicitor of the Department, testified before this committee that the case was referred to his office on May 13, 1950. It was not until January 29, 1952, that the case was referred to the Department of Justice.

Flaxseed conversion cases.—As previously indicated, there were 14 of these cases. They were developed in early 1949. Fourteen different elevators in the Dakota-Minnesota area converted CCC-owned flaxseed stored in their respective warehouses valued at approximately $150,000. The matter was discovered after the warehousemen had attempted to substitute different flaxseed of inferior grade and a later crop year, purchased in Texas. James Cole, regional director, Minneapolis PMA commodity office, testified before this committee that he was very concerned about these cases and came to Washington to recommend prosecution. The record, however, reflects that upon obtaining restitution, the cases were closed and the warehouses reinstated in good standing. The cases were referred to the Department of Justice this year, however, and two of the warehousemen were indicted.

Kingston Farmers Exchange, Inc., Kingston, Ohio.—The Chicago commodity office, on June 23, 1948, entered into a uniform grain storage agreement with a partnership trading as the Kingston Farmers Exchange. A performance bond amounting to $6,000 was accepted. The company's application, dated June 22, 1948, showed a financial net worth of $400,000. A financial statement, as such, was never submitted even after the Chicago commodity office requested same and storage operations commenced without the Chicago commodity office being in possession of this data. On July 30, 1948, the partnership was incorporated, although from June 23, 1948, until July 1, 1950, CCC dealt with the enterprise as a partnership. On July 1, 1950, CCC and the corporation entered into a new uniform grain storage agreement, not because of its new legal status, but because CCC had adopted a new form contract. The new application set the corporation's net worth at $100,000, or a drop of $300,000 from its original $400,000 figure. During June and July 1949, some 98,000 bushels of loan wheat were stored by the Kingston firm, which grain was taken over by CCC in April and May of 1950. This wheat began to deteriorate in quality and a confirmation of this was made on January 4, 1950, upon inspection. CCC agreed to sell the corporation the entire stock in small lots and, on April 20, 1950, the corporation purchased 3,696.16 bushels and, during May and June 1950, bought an additional 44,319.65 bushels. On October 11, 1950, CCC issued a loading-out order for the balance (49,995.57 bushels). CCC was then advised by the corporation that it could not comply, as it had shipped the balance out between February and June 1950. CCC canceled its loading-out order and requested the return of the outstanding warehouse receipts. CCC's claim was set at $111,123.39. A Compliance and Investigation inquiry was requested on October 25, 1950, which confirmed the facts of the conversion. CCC issued another loading-out order on June 27, 1951, and made a storage payment to the corporation subsequent to the known date of the conversion. Officials of the Chicago commodity office testified that both were made through error. The Chicago commodity office wrote the regional attorney on September 28, 1951, recommending no criminal action inasmuch as there was no willful intent to defraud. However, on January 15, 1952, the case was referred to the United States attorney for civil and criminal action, and, on March 5, 1952, two of the principals of the corporation were indicted for conversion and for conspiracy to violate the CCC Charter Act. During the course of these hearings, officials

of the Chicago commodity office could offer no explanation for the administrative errors connected with this case, characterizing them merely as "clerical errors." In the opinion of the committee, however, the many deficiencies evident in this case are an indication of the loose controls existing in the Commodity Credit Corporation in its conduct of the storage program.

Brownwood Shelling Co., Brownwood, Tex.—The Compliance and Investigation report in this case, dated November 10, 1949, reflected that the Brownwood Co., a peanut processor, converted large inventories pledged to CCC for funds advanced; that a shortage was first discovered on April 5, 1949; that the company was permitted, by the warehouse company having third-party supervision, to cure the shortage by redeeming warehouse receipts in the amount of $65,016.97 and substituting 40 tons of inferior and damaged peanuts; that, on May 20, 1949, a second shortage was discovered, and again the company was permitted to cure the shortage by falsifying a report to the factoring warehouse; that the check given to redeem the second shortage created an overdraft at the subject company's bank, which, in turn, was cured by a sight draft supported by false bills of lading for three cars of shelled peanuts; that Brownwood did not have the peanuts on hand to load these cars and subsequently loaded them after selling additional peanuts pledged to CCC. CCC was notified on June 11, 1949. The final shortage amounted to approximately $67,000, and on January 30, 1951, the warehouse company paid $70,101.36 to CCC, representing full payment of principal and interest. Not until March 18, 1952, during the conduct of the investigation by this committee, was the case referred to the Justice Department by the Solicitor's office. The Solicitor, in testimony before the committee, reluctantly admitted that the referral of this and other cases to the Department of Justice was influenced by the committee's investigation. In an effort to justify why his office had not referred the case, the Solicitor produced a letter dated March 26, 1952, from the United States attorney at Fort Worth, reporting to the Department of Justice that no prosecution would be undertaken. The practicalities make it easy to understand why the United States attorney was prompt in declining prosecution on a case of this age and over a year after civil settlement had been effected. The committee is at a complete loss to understand the lapse of nearly 3 years between the discovery of this aggravated conversion and the referral of the case to the Department of Justice.

A number of other peanut cases originating back in 1949 were referred to the Department at the same time, including the following two:

Alabama Warehouse Co., Troy, Ala.—This case involved a conversion aggregating $95,029.14, which was settled for $83,414.36. This case first came to light on August 17, 1949, and the Compliance and Investigation report was dated January 31, 1950.

Abbeville Peanut Co., Abbeville, Ala.—In this case there was conversion of peanuts amounting to $40,680.44, which first came to light in April 1949. The final Compliance and Investigation report was dated April 13, 1950. Settlement was effected with the factoring warehouse for the full amount on July 6, 1950, and the Solicitor's file was closed on September 6, 1950. The matter was referred to Justice March 17, 1952. On March 28, 1952, the United States attorney at

Montgomery, Ala., reported to the Department of Justice that he did not believe he could obtain a conviction, but that if the grand jury met before the statute of limitations had run, he would present the case. He stated that he wished the case had been referred a "long, long, long" time ago.

From indications obtained incident to its study, the committee feels that a detailed survey and investigation of the peanut price-support and processing operations would be most profitable, and suggests the General Accounting Office might place it in line for early attention.

Producer conversions

In the case of farm-stored commodities, the problem of conversions does not appear to be too serious, as the vast majority of the farmers wish an honest program and wholeheartedly endeavor to see that such a program is executed. However, in a program of the magnitude and complexity of the CCC price-support and storage program, it is to be expected that a few farmers will attempt to profit illegally. It is the view of this committee that although the number of producer conversions is relatively small percentagewise, and in no way alarming, nevertheless the CCC has contributed indirectly to the size of this figure as the result of a lax policy of enforcement, encompassing lack of proper inspection, failure to maintain adequate and well-integrated records, and particularly failure to refer serious criminal matters for prosecution.

Farm conversions occur when a producer, who, under programs permitting the storage of commodities on the farm, feeds, seeds, or sells the commodity pledged as collateral, and is unable to deliver it or to pay the CCC loan at maturity. Douglas Larson, administrative officer, PMA regional office, Minneapolis, who had charge of the delinquent producer claim registers for the States covered by the Minneapolis office, reported approximately 600 items, aggregating $600,000. The large proportion of these items were conversion cases. The Chicago regional office reported a much smaller number of claims of this type, involving less than one-third of the amount. The testimony reflected that in numerous claims resulting from producer conversions, the CCC made dilatory efforts, over a period of several years, to collect the money; and that there was no referral of the matters to the proper authorities for criminal prosecution. This, in the opinion of the committee, is an open invitation to conversion. The CCC ascribes, as one reason for its failure to make proper criminal referral, to the opinion of its Solicitor's office that a Federal violation does not occur if CCC is merely a guarantor and does not hold the loan papers at the time of the conversion. The committee is presently giving consideration to recommending an amendment to the law by clearly making it a violation to convert commodities so pledged.

An example of the lack of proper coordination and chain of responsibility existing between regional and State-county PMA organizations may be drawn from the testimony of Douglas Larson, of the regional office in Minneapolis, and Marlin J. Beaver, of the Audit Division of the State PMA office in Huron, S. Dak. Larson testified that the regional office is the record-keeping office of the CCC, and receives a copy of the loan documents after a loan is made at the county level. However, Larson further testified that the regional office has no jurisdiction over the county office, that this supervision exists at the State

level. Larson stated that the only time the responsibility would rest with the regional office would be in a circumstance when a CL–8 form would be sent to it by the county or State office (the CL–8 gives information regarding a producer-converter, or other debtor, and originates at the county level). Despite the fact that the State office holds the jurisdiction over the county office, Beaver testified that the State office in Huron, S. Dak., kept only unofficial records of when a loan was made, relying on the regional office's records to keep track of delinquencies.

The Edmonds County, S. Dak., case developed by this committee provides further example of not only the weaknesses in the CCC enforcement procedures with respect to farm conversions, but also the lack of a well-coordinated line of authority in the operations which concern both the county-State and regional offices. Alfred O'Neill, chairman of the Edmonds County, S. Dak., PMA committee, converted approximately $40,000 worth of farm-stored grain of the 1948, 1949, and 1950 crop years, which conversion did not come to light until the spring of 1951. It was developed that the officials of the county committee had a gentleman's agreement not to inspect each other's bins; that county inspectors would sign a statement saying the county committeeman's bins had been inspected when, in fact, they had not; that even after O'Neill reported to the vice chairman and State PMA field man that he was short, there was never any attempt to inspect O'Neill's bins. O'Neill finally went to the State PMA chairman, Alfred Johnson, admitted conversion of the collateral pledged on his loans, and promised to dispose of some of his assets to obtain funds to repay the loans. It appears that O'Neill was told to stay out of the county office until the matter was cleared up. The State PMA office notified the Minneapolis Regional Office of the case by telephone and requested assistance. Douglas Larson, Minneapolis regional administrative officer, was sent out on the case and conferred with the officials and subject involved. The United States attorney was also contacted at this time to assure that he would be in readiness in the event garnishee proceedings were necessary to tie up the proceeds of O'Neill's sale. After the sale, O'Neill made restitution from the proceeds thereof, from money he had borrowed and from the pledge of part of his current crop. The State office then authorized O'Neill's immediate reinstatement as county chairman, whereupon he continued to pass upon loans and perform all the functions of the office until the next county election, when he was not returned to office. The case was not referred for prosecution until after this committee's investigation had been instituted. The Federal grand jury returned a "no bill" in the case, which might be expected after full restitution had been made and the lapse of considerable time. It might be pointed out that in these farmer conversions, where restitution is made, unless there are aggravating circumstances a jury would be reluctant to indict or convict, but that should not be a factor affecting the policies of CCC in referring these cases to the Justice Department for review.

Alfred Johnson, State PMA director, testified that no legal action was taken in the case because the State never got a CL–8 form from the county committee, and that a CL–8 must originate at county level. He also testified that, generally, criminal action was taken in

this type of case only "when the fellow gets wise and can't pay up." Larson testified that basically the authority of the regional office was limited to those cases which were referred to it by the State and county committees; that the regional office has no authority over the State and county PMA office and vice versa; and that after attending meetings at the South Dakota State and county PMA offices in regard to O'Neill, he reported only verbally to his superior, James Cole, and that was the end of the matter.

James A. Cole, regional director of the Minneapolis office, who also testified before the committee, stated that the regional office only got into State and county problems when proper referral was made to the regional office; that this referral was made by the State committee, when made at all. He stated that if the State committee itself was involved, unless they referred the case to the regional office, it had no method of checking on it. He further stated that Washington has representatives which call on the State committees.

Losses From Quality Deterioration and Shortages

The committee was not able to determine the extent of losses resulting from shrinkage, deterioration in quality, and spoilage of CCC stored commodities due to fact that CCC has no system for accounting for such losses. The indications are, however, that such losses may far exceed the losses which resulted from conversion. The committee is unable to understand why PMA had not made more of an effort to determine and assess these losses as they occurred, as they go to the very heart of the storage problem.

As indicated previously, the committee, of necessity, was confined for the most part in its study to the more serious problems of grain storage. By letter of July 2, 1952, with attachments (exhibit 80, record, p. 1664), CCC has made an effort to give some information relative to such losses. It classified its discussion of the problems of deterioration into three groups: (*a*) Deterioration of commodities stored on a commingled basis, warehouseman responsible; (*b*) commodities stored on an identity preserved basis, warehouseman not responsible if he exercises good care; and (*c*) commodities stored in bins owned by CCC.

CCC attempts to give some indication of the losses through deterioration by furnishing a list of some of the more important commodity deterioration and shortage cases uncollected as of May 20, 1952, in which the amount involved aggregates $3,881,467.01. This schedule (attachment A, record, p. 1668) has very limited value as an indication of the total loss which will be sustained by CCC in this manner, as it only includes those cases which have come to light through loading out of the warehouses involved. There is no indication of the percentage of warehouses which have been fully loaded out to provide some basis for arriving at the extent of the over-all losses from quality deterioration, shrinkage, and shortage sustained. Also, in that the cases listed only include cases involving amounts in excess of $5,000 and there is no indication of the percentage of cases with shortages in quality and quantity where such lesser amounts were involved, it further limits the value of such a showing. It was CCC's policy that its regional offices could settle any claim that wasn't contested, regardless of the amount, and need only refer to Washington those cases in

excess of $5,000 which were in dispute. Basically, it is from this information referred to Washington from which schedule A was compiled and, from the circumstances, it is readily apparent that a conclusion cannot be drawn from the information CCC was able to supply as to whether the commercial warehouse shortages known to exist at the present time are double the approximately $4,000,000 listed on attachment A, or 10 or 20 times that much.

In exhibit 80, CCC makes a further effort to arrive at some measurement of losses from grain deterioration, etc., by comparing the unit price at which deteriorated corn was sold in the domestic market against the amount which would have been realized from this corn if it had been sold at the quality grade at which it had originally been stored. In this calculation, CCC arrives at a loss of $3,349,700 from the sale of approximately 32 million bushels of damaged corn between January 1, 1951, and April 25, 1952, to which it adds another $1,600,000 because of extra freight charges required to ship the damaged corn to distilleries and other marketing points out of the territory where it would probably have been used had it not become damaged, or given indications of going out of condition. From the facts presented, it appears that most of this amount of approximately $6,000,000 is a loss which will be borne by CCC, as it involved corn which either came out of CCC-owned bins or from commercial warehouses storing this grain on an identity-preserved basis. The identity-preserved phase of storage will be discussed later in this report.

As in the case of the information included in attachment A, the comparison of the sale of deteriorated CCC corn with undamaged corn prices during the period January 1, 1951, to April 25, 1952 (the committee understands that CCC does not have records to make even this comparison prior to that date) has most limited value in indicating what the total losses from deterioration will be. Such a computation does not take into effect grain that was thrown away because it was a total loss, grain that is spoiled but has not yet been sold, and losses, shrinkage and deterioration which have not been determined, and no attempt has been made to relate these isolated schedules and computations percentagewise to the stored inventory as a whole.

At the request of the committee, CCC made a report on the percentage of losses from deterioration and shortage in bin site operations of two Illinois county operations which had shipped out all of their corn inventory. These counties were picked at random from the Corn Belt area where most of the CCC-owed bin-site storage is concentrated. The results of these studies reflected losses from deterioration and shrinkage of 3.7 and 4.46 percent respectively from the total inventory stored and handled between September 1949 and June 1952. If the average of these loss percentages were applied to all CCC corn which went into bin storage in the period 1949–52 (350,000,000 bushels at $1.85 per bushel) it would reflect losses through deterioration, shrinkage, and spoilage of $26,400,000 on corn bin storage operations alone, and testimony was received by the committee that losses from CCC bin storage of corn were not as great percentagewise as losses from identity-preserved storage in commercial warehouses. Such a computation may be most unfair, as there is no indication that the losses in the two counties picked are representative (CCC contends they are not), but the point is made to show that until a more com-

prehensive set of records is maintained by CCC, this is a more accurate manner of arriving at some estimate of what actual losses have been, or will be incurred, than the very limited figures furnished the committee by CCC as to shortages or losses.

It is obvious that there is an absolute necessity for CCC to have some over-all idea, through the maintenance of appropriate records and inventory control, as to what its losses through deterioration are, and how soon after storage and where they are occurring. CCC reports that it is instructing its accounting and operating personnel to devise better methods of cost accounting for bin-site operations, but it is difficult to appreciate why some more effective procedures of accounting were not employed before. The committee also feels that such efforts should not be limited to bin-site storage alone, as its cost accounting and inventory control procedures appear quite as ineffectual with respect to commercial warehouse operations as well.

It should be noted that in practically every grain-storage operation some shrinkage may occur and in an operation the size of CCC, there are bound to be substantial losses from shrinkage and deterioration. It might appear that this need not be excessive percentagewise, however, if efficient procedures are employed and a proper accounting is made to accurately report the losses as they occur and permit immediate steps to combat particular situations and problems. In order to give a better picture of the results of the various types of storage employed by CCC with respect to grains, the three principal types of storage employed will be discussed separately.

Commodities stored on a commingled basis

As indicated, in storage with commercial warehouses under the uniform grain storage agreement, most grains, with the exception of corn, are stored on a commingled basis, and the warehouseman is responsible for the quality and quantity of the grain which is placed in his keeping. This is the least troublesome of all the types of commercial storage employed by CCC. From the facts, it would appear that eliminating abnormal conditions, the difficulties arising from this type of storage, in the main, grew out of policy and administrative deficiencies on the part of CCC. These include failure on the part of CCC to preinspect the facilities of the warehouseman to determine the adequacy of such facilities and of the equipment available to properly aerate, fumigate, turn, and handle the grain; determining that the management was experienced and that the warehouse as an institution was financially sound; failure to follow up with inspections once CCC was placed on notice the grain was going out of condition and delays in loading out the grain, once it was known such conditions existed.

Numerous cases could be cited where CCC neglected to obtain a financial statement when such was required by regulations. Further, according to the testimony of George Bradley, director, Chicago PMA commodity office, the requirement of obtaining financial statements in connection with approval of storage applications was suspended during the most important and critical storage period of 1949 and 1950. It has not been the policy of CCC to preinspect warehouses. The bond requirements of 5 cents per bushel would appear to be entirely inadequate, as it is indicated that such a figure was set when the price of wheat was 60 cents a bushel.

Of course, it was necessary in 1949, because of the huge crops and unprecedented CCC inventory take-over, to employ facilities which were far from ideal and, under the stress of such a condition, some mistakes were expected. The committee feels, however, that even though market conditions were such that negligible amounts of grain were sold domestically, there were sufficient foreign aid programs to have enabled CCC to have syphoned off most of the grain stored in these unsatisfactory facilities at a much earlier date than accomplished, rather than processing it as it did in the open market and from more readily accessible points. Thus, the Government would have been saved large losses which occurred by permitting the grain to remain in such storage and deteriorate. This will be commented upon in the facts of particular cases later in this report.

Even under the provisions of the Uniform Grain Storage Agreement calling for commingled storage, the warehouseman was relieved of responsibility if he used all reasonable care and if, when the grain started to go out of condition, he notified CCC to this effect. There appear to have been a number of specific cases in which CCC was dilatory in taking timely action after receiving such notice.

The Arkadelphia case, which involved wheat storage by the Southern Grain & Storage Co., Inc., Arkadelphia, Ark., and in which there was a quality and physical shortage of more than $130,000, will apparently result in a loss to CCC, even if the bond is recovered, of nearly $80,000. This case is a classic example of the failure to have proper preinspection of the warehouse, failure to determine the financial ability and the experience of the warehouseman, failure to make proper inspection after the grain was in storage, and failure to take proper action upon being put on notice that the grain was going out of condition. Wheat in the amount of 179,000 bushels was stored by CCC in the facility in the summer of 1950. The evidence indicates that it was a new company and that the management was not experienced in grain storage; that it rented an old facility at Arkadelphia, Ark.; that the net worth of the company was $5,000, including $600 cash; that the warehouse was overloaded and less than 90 days after the grain was stored, the Dallas office was placed on notice that it was going out of condition; that 3 months thereafter, 40,000 bushels were loaded out; that at that time the officials of the company were found to be unsatisfactory; and that 10 months elapsed before the grain was again inspected, at which time it showed an average grading factor damage of 75 percent and was finally sold for chicken feed.

Identity-preserved storage

From the evidence, it appears that the greatest losses will result to CCC from this type of storage with commercial warehouses. While contracts for identity-preserved storage, as in the case of commingled storage, are made under the uniform grain storage agreement, the provisions are significantly different in that it required the warehouseman to specially bin the grain stored with him and return the identical grain covered by the warehouse receipt. In the case of a superior quality of grain stored only for a safe period, this type of storage theoretically operated to the benefit of the owner of the grain in that it was not commingled with other grain stored by the warehouseman and there are certain factors within the grade quality of any particular grain which affects its value for certain uses. From the

facts, it appears that, as a general proposition, such unusual conditions which would make any particular crop of corn of such excellence as to make it desirable to store on an identity-preserved basis, would be more than offset by the storage of the grain over any extended period without freshening it with new stocks or the substitution of corn of equal grade quality by a warehouseman storing on a commingled basis. Under the identity-preserved storage agreement, the warehouseman was required to use reasonable care to keep the corn in condition and to notify CCC of material changes in the quality of the stored corn as it occurred. In the event he did this, any losses from shrinkage, breakage in handling and turning, and any quality deterioration must be borne by the owner, CCC.

The committee received conflicting reports as to the reason why most corn was stored on an identity-preserved basis. It was indicated that a number of years ago, as a result of an excellent crop of corn, CCC instituted the practice of storing it on an identity-preserved basis, and this practice was continued in the following years because of the precedent set. Such a reason would appear to be entirely without merit in the light of the losses which have been sustained in this type of storage. A more cogent reason given as to why corn was stored on an identity-preserved basis was the reluctance of warehousemen to take the responsibility to store this particular grain over any extended period. It was indicated that CCC acceded to the pressures of the trade in this regard. It is reported that corn, characteristically, is not as good a storer as wheat and other grains in that a percentage of it pulverizes incident to the turning and handling necessary in storage, which material is considered practically waste, and further that the fats and other ingredients in corn break down after a period of storage sufficiently to give it a slightly objectionable odor and affect its grade quality.

It would appear to the committee that if CCC found it necessary to store corn or other commodities on an identity-preserved basis, it should have provided for the inspection of such commodities periodically by its own inspectors. No such provisions were made. The evidence would indicate that CCC made no attempt to keep by crop year or otherwise any record of the length of time that its corn was stored on an identity-preserved basis for the purpose of moving out the oldest stocks first. Such failure would appear to be another example of the inadequacy of the management to cope with the problems.

A situation which more graphically portrays the confusion, lack of policy, and consequent serious losses to the Government therefrom, is to be had with respect to CCC's position regarding the corn storage program between 1949 and 1951. In September 1949, CCC advised the various commercial warehouses storing corn by letter that unless such warehousemen notified CCC that they were specially binning all corn stored for CCC, it would be assumed that such grain was being stored on a commingled basis, in which case the warehousemen would be responsible for quality and quantity. It is understood that in most cases terminal and large warehouses advised CCC that they would continue to store the corn on an identity-preserved basis, but that a large percentage of the country warehouses made no reply. For 2 years CCC assumed that such corn in those warehouses, which had not notified CCC it was placing the corn in special

bins, was being stored on a commingled basis. The question of whether the corn in these elevators was stored on a commingled or identity-preserved basis came up in September 1951, when the Michigan Processed Food Co. contended it never received the letter of September 1949, and that they had continued to store on an identity-preserved basis. The issue was presented to the Solicitor's office of the Department, which ruled that the unilateral notice by CCC to the warehouseman was not legally binding unless he had agreed to the conditions imposed. It has been determined that there are approximately 30 million bushels of corn which CCC had thought was stored on a commingled basis which they now find has allegedly been stored on an identity-preserved basis. Under the conditions, CCC has no choice but to accept the warehouseman's certificate that the corn was stored on an identity-preserved basis and to stand all losses of shrinkage, as well as all losses resulting from deterioration, unless it can be proved that the warehouseman did not use reasonable care in the storage of the corn, or that it was going out of condition and he did not notify them. Such proof would appear most difficult to obtain when CCC made no inspections during this 2-year period and had assumed that the corn was being stored on a commingled basis in which case the warehouseman would be responsible for quantity and quality.

CCC, in its letter of July 2, 1952 (exhibit 80), indicated that its present policy is to make minimum usage of identity-preserved contracts with commercial warehouses and, to the greatest extent practicable, will store grain on a commingled basis, where the warehouseman is fully responsible for the condition of the grain and can freshen his stocks from time to time. The committee feels that the management of CCC must be severely criticized for such a lack of efficiency and concern for the Government's interests as to permit the conditions set forth to continue to prevail.

Cargill, Inc., Norris City, Ill.—The General Accounting Office presented an investigation report with respect to the storage activities of Cargill, Inc., Norris City, Ill., which included the following facts: That the Chicago commodity office guaranteed Cargill $612,500 for the period September 1, 1949, to October 1, 1950, for the storage of 5 million bushels of corn in reconverted oil tanks on an identity-preserved basis, whether the facilities were utilized or not; that this guaranty originated in the Washington office of CCC (record, p. 1104); that the income guaranteed Cargill was based on standard rates for loading in, storage, and loading out charges for 5 million bushels of corn; that the corn was actually stored in the facilities, although delays and other difficulties were encountered at considerable expense to the Government because of Cargill's failure to have the facilities ready in accordance with the provisions of the contract; that CCC proceeded with its plans to store the corn in these facilities even though an inspection prior to the time the loading in began indicated that the facilities were unsatisfactory; that in the winter of 1949–50, a few months after the corn had been stored, a check on the bins revealed temperatures of 120° inside the tanks when it was 10° below zero outside, and reflected that the corn was going out of condition; that although the storage appeared to be inappropriate and the inspections reflected the corn was deteriorating, most of it was left in the facility until the early part of 1952; that although CCC left the

corn in storage with Cargill for well over a year beyond the period of the original agreement thereby permitting additional income and profits to Cargill, that company charged the full guaranteed price for the first year, $37,500 of which represented charges for loading out, and again charged for this service when the actual load out was made at the later date.

While the Solicitor's office sanctioned the second payment of $37,500 to Cargill as legally due them, the committee did not find this necessarily to be the fact from the evidence developed at the hearing, and when Cargill refused the committee's request to refund the money to CCC, has suggested to CCC that this amount be offset against other sums owed this company, which, it is reported, has been done. There were other instances developed by the committee where it appears there was an indifference on the part of the management of CCC to being taken advantage of.

It has been established that the corn stored at the Cargill Norris City facilities suffered an average damage on a grade factor basis of 20.53 percent while in storage (see exhibit 80B, record, p. 1673), resulting in a loss of value, at present market prices, of $920,769.32 (see exhibit 80C, record, p. 1673). As reflecting some light, or lack of it, on the extent of the losses through deterioration, it might be significant to note that the Chicago commodity office reported an estimated loss of less than $500,000 from this facility at a time when the loading out operation had been nearly completed, and it was only after the committee had requested an actual detailed check of the losses that the larger figure was established.

The committee does not have sufficient evidence to indicate what rights, if any, CCC has to recover from Cargill, Inc., the large losses suffered from deterioration of this corn on an identity-preserved basis. There was some indication that this large warehouse company, which can be assumed to have full know-how on the proper preservation of grain, did not use the care taken by another company storing grain in a similar emergency facility in Texas, and did not take the precautions which CCC used in its own bin-site storage of turning and aerating the grain.

Cargill, Inc., Albany, N. Y., facilities.—According to a Compliance and Investigation report made available to the committee, from May 12 to October 30, 1950, CCC placed in storage at the Cargill Albany grain elevator in excess of 3 million bushels of yellow corn on a commingled basis. On August 9, 1951, Cargill, Inc., notified CCC that there was evidence of deterioration in the CCC corn still in storage. Subsequent warehouse inspections disclosed that large quantities of corn, designated by Cargill as CCC corn, were of considerably lower grade than the corn originally received by Cargill for the CCC account. There was an over-all shortage in deliveries of over 10,000 bushels of corn of an undetermined grade. The average moisture content of the CCC corn at the time of its receipt by Cargill was 13.1 percent and all CCC corn out-bound from Cargill averaged 13.6 percent. During the period October 13, 1950, to October 31, 1951, Cargill stored at Albany for its own account some two million bushels of corn. This Cargill corn had an average moisture content of 15.2 percent, but when shipped out averaged only 14.5 percent. Officials of Cargill, Inc., attributed the improvement of their own corn to expert handling and blending and at the same

time attributed CCC's loss to failure of CCC to move the corn out of storage earlier. They inconsistently stated that they did not handle or condition CCC corn while it was in storage because it would have accelerated the rate of deterioration, and at the same time stated that their own corn improved in quality because of repeated handling and conditioning. They also asserted that from a practical standpoint, they handled CCC corn on an identity-preserved basis, even though legal requirements for that type of handling might not have been met, and therefore they knew that the lower grade corn belonged to CCC.

The Compliance and Investigation report explains that evidence controverted this claim of Cargill's and established that CCC and Cargill, Inc., corn were handled on a commingled basis. The report also states that Cargill, Inc., could not produce records covering sufficient drying operations to account for the improved moisture content of Cargill, Inc.'s, own corn. CCC has referred this case to the Department of Justice.

Roberts Enterprises, Inc.—The Chicago commodity office on July 18, 1949, entered into a uniform grain storage agreement with Inter-Lake Industries, which had a net worth of in excess of a quarter of a million dollars, and which had rented a naval storehouse at Rockdale, Ill. Apparently, Roberts Enterprises, Inc., which was organized August 10, 1949, and had a negligible net worth, took over the Inter-Lake Storage operation at Rockdale. Roberts entered into a uniform grain storage agreement with CCC on September 28, 1949, giving a net worth of $4,000, subsequently changed by pencil to $20,000. Corn began going into the warehouse for storage on September 14, 1949. On October 18, 1949, the Illinois State PMA chairman advised the Washington office of CCC that Roberts was unsatisfactory. A total of 944,182 bushels in all were stored with Roberts Enterprises. CCC was unable to get Roberts to sign a renewal contract. No inspection was made of the grain after apprisal of a change in management which was unsatisfactory. On January 5, 1951, CCC inspected the corn at the request of the warehouseman and found it hot, heavily infested with weevils, crusted, and infested with rodents to the extent that women employed in adjacent buildings threatened to leave their employment. Loading orders were issued on January 19, 1951. The last of the corn was not loaded out until October 19, 1951. There was a quality deficiency on 890,366 bushels and a shortage of 50,590 bushels resulting in the loss of $350,605.92.

Michigan Processed Foods, Inc.—Commodity Credit Corporation entered into a uniform grain storage agreement with this company on August 10, 1949. The agreement covered grain storage facilities at Quincy, Mich. and Illiopolis, Ill. The warehouseman had no prior grain experience, and the Department had previously attempted to have the warehouseman indicted in connection with a potato dehydration contract. No financial statement was required, and it subsequently developed that the company did not have sufficient assets to handle the grain properly and meet its current obligations. There was no preinspection of the storage facilities, which were inadequate. A guaranteed storage agreement for the Quincy warehouse was given to the company 2 months after execution of the uniform grain storage agreement. While the guaranty was based on the ground that there was a shortage of storage space in Michigan for local

corn, most of the corn placed in storage at Quincy was shipped from Iowa at considerable expense to the Government. The Commodity Credit Corporation losses due to shortage and deterioration at this company's facilities are estimated at $88,731.20.

Inspections

While the subject of inspections has been discussed throughout this report in connection with particular cases, the very fact that inspection is an issue in so many cases would indicate that the over-all problem is one that requires discussion here, and considerably greater attention by the Department than has been accorded to it in the past. It was shown by the evidence produced before the committee that preinspection of many storage facilities would have shown them inadequate, and consequent loss would have been avoided; that efficient and more frequent qualitative inspections would have reduced losses; that quantitative inspections in the many conversion cases where no such inspections were made, and more efficient quantitative inspections in the Tanner and Plains grains cases (where inefficient checks actually were made) would have reduced losses in those cases; and that better cooperation between United States Warehouse Act inspectors and commodity offices in the Tanner case might have prevented the situation in which CCC held illegal warehouse receipts and two sets of inspectors were duplicating inspections, while the warehouseman was converting the beans undetected.

While the need for adequate inspections increased greatly with the large 1948 and 1949 crops and the consequent entry of many new and inexperienced warehousemen into the storage field, the Department failed to appreciate, and take appropriate steps to meet this increased need. It is indicated that as early as April 26, 1949, Latham White suggested that warehouses be approved or disapproved by county committees prior to their use (exhibit 13, record, p. 235), but preinspection of warehouses was not required until January 1951 (p. 1946). As late as January 18, 1952, the Secretary testified before this committee that regular checks on stored commodities were limited to condition, and did not cover quantity (record, p. 67), and the evidence indicated that inspections for quality were wholly inadequate. While the Department's excuse for failing to make adequate inspections was based upon lack of sufficient funds, your committee believes that the facts make it clearly apparent that a much better job could have been done on this important work with the funds available. The Office of Audit starting in July 1951 made inspections of 399 warehouses. The Office of Compliance and Investigation has conducted most of its investigation of conversion since that time. Most of the criminal matters, civil recoveries and other enforcement action has been instituted since that time. If checks of this type had been begun earlier, it seems quite certain that the situation would not have gotten out of hand to the extent which it did. The committee is advised that in the future, inspections will be made quarterly for processed commodities and twice annually for grain and certain other commodities, at least one of these inspections to be quantitative. The Department has also indicated that inspection procedures will be tightened up all along the line, and that cooperation between United States Warehouse Act inspectors and commodity offices will be im-

proved. The committee believes that the Department should make considerably better use of the personnel now available to it and of existing agencies in this work.

The facts would indicate that the Office of Audit and of Compliance and Investigation could be used most effectively in the inspection of operation; that the work of the United States warehouse inspections could and should be better integrated with the over-all program, and that there be a freer exchange of information; and that special training courses by competent instructors at the county-State and regional levels would greatly improve the efficiency of any inspection program.

Special Case Studies

The matters which will be briefly summarized below relate to CCC policies, management, personnel, and attitudes and speak for themselves.

Rental of Government-owned storage space through private companies (Camp Crowder, Mo.)

Inasmuch as publicity received by private operators of grain-storage facilities at Camp Crowder, Mo., was one of the major factors which led to the institution of this investigation, and because it was specifically mentioned in the resolution, the committee devoted considerable time and heard many witnesses in connection with this matter. Charges had been made that private concerns and individuals by acting as intermediary between two Government agencies had made tremendous profits without the risk of private capital and with substantial loss to the Government. The preliminary investigations of the committee staff indicated that there were 109 former Government installations which had been used for the storage of Commodity Credit Corporation commodities. The large majority of these facilities had been sold or leased to private operators or given to municipalities before the big need of the Commodity Credit Corporation for emergency storage arose. There were, however, 23 installations which were leased or purchased from the Federal Government by private operators after July 1, 1948, which the Commodity Credit Corporation might have obtained for its own use had it attempted to do so. The special study made of operations at Camp Crowder, Mo., will serve to illustrate this situation.

Camp Crowder was a military installation in southwestern Missouri, not too advantageously located from the standpoint of grain storage which had been declared surplus by the military following World War II. Two companies, V. M. Harris Grain Co. and the Midwest Storage & Realty, Inc., rented certain buildings of this camp from General Services Administration and, at about the same time, entered into contracts with CCC for the storage of grain. This occurred in the summer of 1949, when CCC was pressed for storage space and was using emergency facilities. Both companies signed the CCC's uniform grain storage agreement providing for the storage of CCC grain on a commingled basis, which required the warehouseman to maintain the quantity and quality of the grain stored. GSA required that the buildings used, mostly barracks, be strengthened for the storage of grain by shoring and other minor repair alterations.

V. M. Harris, principal of the Harris Grain Co., had been a country warehouseman for many years at Scott City, Kans. He signed with CCC June 24, 1949, and leased 33 buildings from GSA on June 29, 1949. He received $372,457.69 from the CCC and $13,000-odd from other sources for storing grain in the camp facilities during the period ending June 30, 1951. His expenses for the approximate period for labor, fumigants, supplies and material, including $34,844.61 in rentals to GSA, aggregated $284,124.39. This left a gross from operations of slightly in excess of $100,000 before the settlement of claims. Harris, however, had difficulties in keeping the grain in storage up to grade, and did not use weighing facilities to determine weights upon receipt at or shipment from the warehouse, with the result that he completed his operation with quality and quantity deficiencies which resulted in a CCC claim against him of $414,826.79, and a claim from the Army, which has reactivated Camp Crowder, of $39,767 for restoration of the buildings.

The Midwest Storage & Realty, Inc., was incorporated for the express purpose of leasing facilities at Camp Crowder and storing grain for CCC. Certain of its organizers were prominent citizens and politicians of Missouri who, with but one exception, had had little or no experience in the warehouse business. The officers included: Ardeis H. Myers, president; Harry Easley, vice president; Dan M. Nee, secretary; and John Stark, treasurer. Stark had had outstanding experience as a grain warehouseman. The company was incorporated September 12, 1949, leased 113 (later increased to 163) buildings from GSA September 15, 1949, and signed a uniform grain storage agreement with CCC on September 19, 1949. The company stored slightly in excess of 2 million bushels of grain during a period ending June 10, 1951, and received $385,968.52 from CCC in storage payments. The company paid GSA $17,162.38 in rentals for the facilities. Midwest paid a lower rental than Harris because most of their buildings were back from the railroad siding, requiring trucking of the grain to and from the railroad. Including labor, insurance, and other expenses, Midwest operation costs aggregated $283,997.70, leaving a gross profit after operations of $105,744.20. Salaries and bonuses of $89,706.33 were disbursed to the officers, leaving $16,037.89. This company had excellent success in the storage of the grain without loss to itself or CCC, but there is presently pending against the Corporation a claim of $59,953.45 for restoration of the buildings.

Department officials have contended that it was necessary to employ these private concerns to store the grain because of a clause in the CCC charter providing that normal channels of trade should be used whenever possible. The committee feels that the record is clear that such an argument is without merit and that such a strained construction of the legislation was not in conformity with the intent of Congress. John C. Cowan, assistant director, PMA commodity office, Kansas City, Mo., testified at the hearing that in this emergency period of storage CCC did not have the know-how or equipment, nor did it consider it feasible to operate these storage facilities, and accordingly, it was the administrative determination of the Kansas City office to handle them in the manner it so did. This would appear to be a much more plausible argument for employing the use of private companies to store grain in Government-owned facilities.

The evidence is not conclusive as to whether it would have been cheaper for CCC to have obtained the use of these facilities from the other Government agencies and entered into handling contracts with experienced warehousemen than the method employed, nor is there any proof that it would have been possible for CCC to obtain such contractors at that time. The evidence produced discloses that the Commodity Credit Corporation paid the same rate of storage at Camp Crowder, Mo., that it paid other warehousemen. The evidence also discloses that the operation involved a substantial risk of private capital, and the loss to the CCC, if any, would have to come about through possible inability to collect from the V. M. Harris Co., for the loss in deterioration of grain while in storage. It does appear that the handling-contract type of operation is much preferable to the method employed when Government-owned emergency storage facilities are involved; and, certainly, such emergency storage should not be considered usual channels of trade.

It was disclosed in the case of the V. M. Harris Co. that the Kansas City Commodity Office had paid Harris $84,166.39 in storage payments several months after it became evident that the CCC would have large claims against Harris for shortages and quality deficiencies and after a stop order had been placed on the Harris account. Evidence of such unexplained payments was developed in a number of other cases in various PMA regional field offices and is indicative of deficiencies in the system employed by CCC. A clerk was suspended in the instant case, but no real explanation was obtained as to how such a serious error could occur.

It was also disclosed that the Midwest Co. had been guaranteed the storage of 2,000,000 bushels of grain by CCC, which provision was added to the Uniform Grain Storage Agreement (this was done in some other cases also). It was further developed that no financial statement was obtained from Midwest, although such was required by regulations, and that at the time the storage agreement was entered into with Midwest that company had no assets other than stock subscriptions for $25,000. According to prevailing regulations, CCC should not have entered into such an agreement until a financial statement was filed. A bond to guarantee performance of its contract in the amount of $200,000 was furnished by the Midwest Co. However, regulations would also have required an additional bond if the financial status of the company as it existed at the time had been determined. The evidence discloses that no such additional bond was furnished.

Although not relating to CCC operations, it was further brought out at the hearing that the Midwest lease of the space from GSA provided for rental of only $1 per building until such time as Midwest elected to use the buildings, which, in effect, tied up these buildings for the nominal amount of $1 per building. It was further developed that Quirk J. Bernard, who was then in charge of the Kansas City office of General Services, and who executed the Camp Crowder lease agreements with Midwest, was associated with Dan M. Nee, secretary of Midwest, in an automobile agency, and that such action was in violation of GSA regulations prohibiting Government employees from taking final action in matters affecting persons with whom they had business associations. The evidence reflected that Midwest pur-

chased trucks from the Bernard-Nee motor agency shortly after the lease was signed.

In the V. M. Harris Co. case, it appeared that Harris had undertaken a private storage venture with two GSA employees, since deceased, who, on behalf of GSA, negotiated the lease of Camp Crowder with Harris.

From all the facts, it may be seen that the practice of permitting private companies to lease storage space for the purpose of contracting for the storage of Government commodities is one which may leave the suggestion of possible influence and irregularities whether it exists or not. Accordingly, Government agencies would be well advised to avoid such situations in general and, where no other alternative is practicable, to use the utmost precaution in determining that there is ample opportunity for competition and that all of the rules and regulations relative to such transactions are strictly adhered to.

1949 Minneapolis wheat purchases by CCC

The committee made a study of CCC wheat purchases in the Minneapolis area under the "supply" program of 1949. The transactions, although not directly connected with the warehousing and processing activities of CCC, bear a close relationship thereto in that they involve grain which went into storage; was handled by the same management personnel who administered price-support and storage programs; involved warehousing and transportation, and in general throws light on the manner in which CCC conducted its business.

In early 1949 the national "supply" support quota was estimated at 100,000,000 bushels, of which 25,000,000 bushels were allocated for purchase to the Minneapolis area. Mr. William A. McArthur, Assistant Director, Grain Branch, PMA, through Mr. James C. Cole, director of the Minneapolis Commodity Office, directed and supervised the purchase of over 24,000,000 bushels of spring wheat between January and May 1949. Of this amount, Cargill, Inc., sold CCC approximately 11.7 million bushels, the balance being purchased from 16 other vendors. The General Accounting Office made an exhaustive investigation and submitted facts to the committee which indicated that CCC could have saved the Government between $500,000 and $1,000,000 on the transactions with Cargill, Inc. For a more complete summary of the facts developed by the GAO investigation, see summary of its report (exhibit No. 73, report, p. 1496).

All wheat purchased by the Minneapolis office was on a cash basis, with contract terms for immediate or early delivery. All the grain from vendors other than Cargill was delivered in accordance with delivery instructions contained in the contract. Cargill's contracts, however, which originally called for delivery to Duluth and Superior by April, were canceled and new contracts entered into, including a transportation agreement which provided for delivery at Albany after May 1, 1949. Although CCC was able to effect some saving in handling and a saving of approximately 3 cents per bushel on transportation costs through the new contracts with Cargill and Cargill's practical monopoly of all-water transportation, it failed to take advantage of the 8-to-20-cents-per-bushel savings which it could have effected by purchasing on a "to arrive," "deferred delivery," or futures basis.

Cash prices for No. 1 spring wheat between January and May 31, 1949, ranged from a low of $2.13 on February 8 to a high of $2.34 on February 25 and April 14. Cash premiums, exclusive of protein, ranged from 6 cents a bushel in January to a high of 23½ cents in February and averaged about 20 cents per bushel during March, declining to about 10 cents per bushel during the latter part of April. There were no reasons for paying cash premiums unless the wheat had to be available before the next futures-contract month.

CCC defended cash purchase of wheat from Cargill on the basis that futures buying would have disrupted the futures market. GAO produced statements of a number of large grain dealers and traders in the Minneapolis area indicating that from 4 to 6 million bushels of wheat could have been purchased on the basis of futures, "to arrive" or "deferred delivery," without disrupting the futures market, and that, by purchasing all the grain on a cash basis, CCC disrupted the cash market. As to take-over wheat, CCC officials took the position that they would not have been able to use wheat taken over under price support of April 30, 1949, as that grain would not have been in position to ship by May and June. However, the facts are that the wheat purchased from Cargill was not transported until after May. There was also evidence to indicate that other grains, such as oats, barley, and rye, had been taken over as of April 30 and shipped during the month of May to seaboard.

Mr. Erwin E. Kelm, vice president of Cargill, Inc., in charge of the grain division, testified before the committee that CCC did not attempt to renegotiate the prices paid for wheat when the original contracts were canceled and new ones entered into deferring the dates and changing the place of delivery. He testified that the delivery date in the purchase contracts entered into in January and February 1949 was April 15, 1949, and that cash wheat in January and February sold about 18 cents over the May futures. He further stated that his company took advantage of this price differential through the new contracts to make substantial profits. He concluded his testimony with a statement to the effect that, under the new contracts and the transportation agreement with deferred delivery dates and change in place of delivery, his company had a real profit deal and could not lose.

Plugging of flaxseed cars and resultant losses to CCC

In connection with the flax-purchase program of CCC, the Minneapolis Commodity Office took over 29,707,798 bushels of flax during the months of August 1948 to June 1950. Approximately 22,000,000 bushels came from the 1948 crop. Under their announced program of 1948, CCC paid the terminal elevators $6.01½ per bushel for No. 1 grade flax. During the period of time when CCC was buying flax, and actually for many years prior thereto, it had been a general practice for the country shippers to place dockage and other foreign material in the bottoms of railroad cars and to high-load the cars so that inspectors could not get a representative sample of the contents of the car. The General Accounting Office, which conducted an investigation of this practice, estimated that CCC may have suffered losses of as much as 2½ to 3 million dollars by this failure to take appropriate action to prevent such practices. (See Summary of GAO report, exhibit 94–2144.)

On the first or second day of the program, the State deputy grain inspector for the State of Minnesota and the acting Federal supervisor

in Minneapolis informed James A. Cole, director of the Minneapolis regional office, that a large percentage of the cars were high-loaded and many of them were plugged so the official inspectors could not furnish CCC with representative samples of the flax by using the probe method. They suggested that the Corporation stop buying on the basis of the in-car inspection and that the samples be taken by cutting the stream of the flax from the weighing scale into the bin, and that a sample thus taken would be made for each car that went into each one of the elevators. Cole thereupon stopped buying flax and reported the incident to the trade people and to George Prichard, Director of the Fats and Oils Branch of PMA in Washington. The trade people refused to accept that particular method of sampling, and wanted to revert back to the probe method. Prichard gave Cole authority to resume buying, using the probe method, and in a wire to Cole dated August 30, 1948, said he would accept full responsibility for the decision.

Kirt W. Johnson, of the St. Paul field office of the Investigation Branch, GAO, testified that the method of cutting the grain was a common procedure and very definitely is the customary practice when the purchaser is the private trade and wants to be sure he isn't cheated. It is evident that PMA capitulated to the trade. Country shippers continued to plug cars destined for CCC because they were not penalized even when caught.

George I. Prichard, Director, Fats and Oils Branch, PMA, testified he requested Compliance and Investigation to make an investigation of the Morris Cooperative Elevator Association of Morris, Minn., and the Kerkhoven Grain Co. of Kerkhoven, Minn., on October 21, 1948. The Morris report was received by Prichard on April 11, 1949. Fifteen days later he relayed it to the Fiscal Branch, who in turn sent it on to the Solicitor's office July 21 of the same year. Prichard testified his recommendation was that the case be closed, even though the manager of subject elevator admitted that he placed flaxseed with heavy dockage at the bottom of cars and that he mixed screenings into the flaxseed. His letter of transmittal reflected that the method of grading resulted in serious financial loss to CCC.

Mr. Howard B. Pickard, Office of the Solicitor, testifying in conjunction with Mr. Prichard, advised that his Office came forth with a formal opinion on June 30, 1950, 18 months after the investigation. Pickard asserted that the decision not to prosecute was based on the assumption that there was only 1 car out of the 48 that showed any real evidence of plugging. This conclusion was reached even after the Solicitor's office was aware of the fact that the manager of instant firm had admitted plugging. The case was not referred to the Department of Justice.

Prichard stated that the Kerkhoven case was referred to him on May 17, 1949, and that he referred it to the Fiscal Branch on July 13, 1950, with the recommendation that it be closed, even though the Compliance and Investigation report contained admissions of intent to defraud. This was done without consultation with the Office of the Solicitor. Prichard advised that he was guided in this decision by the opinion previously set down by the Solicitor's office re the Morris Elevator case, which he had decided were similar in nature.

Evidence was produced at the committee hearings that the losses sustained by CCC as a result of the plugging practices were not as

great as originally estimated, but certainly they were greatly in excess of the normal shrink due to CCC failure to take appropriate steps to prevent this practice.

Jack Cowart

Jack Cowart was employed by PMA on February 1, 1945, at $3,800 per annum and advanced through various positions as methods analyst and employee-relations officer to Assistant to the Administrator of PMA, at a grade of GS–15 (salary $10,250 per annum), which position he held at the time of his discharge, August 23, 1951. Cowart alleged to have many acquaintances high in administration circles, and from all the facts it appears this was his principal stock in trade.

Evidence was produced before the committee that in June 1950 Cowart approached a Washington attorney, Daniel L. O'Connor, who represented the Port Compress Co., a cotton warehouse in Port Arthur, Tex., which company's United States warehouse license had been suspended because of violations of provisions of the act. The company at the time was attempting to have its license reinstated. (It failed to do this, and its case was subsequently referred to the Department of Justice, and the principals plead guilty to violation of the act.) Cowart represented to O'Connor and the principals of the Port Compress Co. in a night meeting (which he requested) at the latter's Statler Hotel room that he was an important official of the PMA; that the Port Compress people didn't have a chance to get their license reinstated, but that if they would lease their warehouse to him and his associates he could obtain its reinstatement immediately; that if they continued their efforts it would only be to their embarrassment and the case would be referred to the Department of Justice, but if they would lease it to him he thought he could have the hearings dropped. O'Connor testified before the committee that he considered Cowart's approach highly improper; that as soon as Cowart got in touch with him he called Mr. Wesley McCune, assistant to the Secretary of Agriculture, and put him on notice and agreed to report the outcome of the Cowart meeting to the Secretary's office, which he subsequently did.

Secretary Brannan and Mr. McCune, when interviewed by committee counsel, advised they had no recollection of the incident; but subsequently, when Secretary Brannan appeared before the committee, he produced the letter and memorandum which Mr. O'Connor had transmitted to the Secretary's office under date of June 30, 1950, and indicated his memory had been refreshed (exhibit 91, record, p. 2066). Secretary Brannan testified that the O'Connor letter and memorandum had been turned over to him, but at the time he did not consider the incident of sufficient moment to refer it to his Office of Compliance and Investigation, nor did he check with the Administrator of PMA, for whom Cowart worked. He stated that he was only interested that the Port Compress case was carried to a logical conclusion, and that he considered Cowart's activities just "a bunch of yakking between a few Texas people." Cowart, as well as the principals of the Port Compress Co., were natives of Texas.

It was further developed that in the fall of 1950, at the time Stephen Benit, an employee of the Dallas office, was permitted to resign in lieu of facing charges for taking bribes from an Oklahoma warehouseman,

Benit alleged that Cowart had an interest in the Baton Rouge Warehouse, Baton Rouge, La., which company had storage contracts with CCC for canned meat and cotton linters. The testimony before the committee by H. Stanford Yohe, Chief of the United States Warehouse Act Division, and Martin J. Hudtloff, Director, Transportation and Warehousing Branch, PMA, indicated that Cowart had manifested considerable interest in the Baton Rouge company, obtaining approval under the United States Warehouse Act; that Cowart had appeared at a conference in New Orleans which Hudtloff had been sent out on to effect arrangements for the approval of such facilities for CCC storage; that Cowart had elicited the assistance of personnel in the Warehouse Branch to obtain railroad-transit privileges for the Baton Rouge company, and that Cowart had subsequently obtained a financial statement from such personnel as to the operations of the Baton Rouge company.

There was also information received that Cowart had put pressure on CCC employees of the Dallas commodity office to store commodities in the Baton Rouge warehouse.

Apparently, as a result of Benit's allegations, and in view of the interest Cowart had manifested in the Baton Rouge company, a Compliance and Investigation investigation was conducted in the fall of 1950 as to Cowart's interest in the said company, which investigation confined itself to obtaining denials from Cowart and the company officials of any such interest on the part of Cowart.

On August 2, 1951, the Housing and Home Finance Agency referred to the Department of Agriculture results of investigation which disclosed that a manufacturer of grain bins in Dallas, Tex., had paid $1,374.40 in April 1950 to Cowart's secretary, who in turn paid $1,100 of this amount to Cowart. Cowart was suspended and later, on August 23, discharged. Investigation by Compliance and Investigation in the fall of 1951 developed that money paid Cowart represented 10 percent of a claim which the grain-bin manufacturer had collected from the Department; just prior to the payments to Cowart. This case was referred to the Department of Justice, and a conviction of Cowart has been obtained in the United States District Court for Eastern Virginia at Alexandria.

A more comprehensive investigation by the Compliance and Investigation office as to Cowart's connection with the Baton Rouge Warehouse Co., in late 1951 developed that 163 shares of the capital stock of the Baton Rouge company, at a par value of $25, were issued to the mother-in-law of Cowart in September 1949 in consideration of a promissory note of $4,075; that Cowart was very active in obtaining approval of the warehouse to store CCC commodities and exerted pressure upon Dallas employees to store CCC commodities in the Baton Rouge warehouse; that on January 15, 1951, the company repurchased the stock for $22,300 by giving a check in the amount of $17,500 payable to Cowart's mother-in-law, which was endorsed by Cowart and deposited in his personal bank account. The balance was paid in $400 monthly installments, the checks initially being made payable to Alex Campbell, attorney, as "retainer fees," but endorsed to Cowart and deposited to his account.

The committee staff in an analysis of Cowart's bank accounts further developed receipt of substantial checks by Cowart from other persons having business with CCC or representing companies having

business with CCC. These cases in which an adequate explanation was not forthcoming from the persons making such payment have been referred to the Department of Justice for further investigation and appropriate action.

In the opinion of the committee from the facts disclosed, it would appear that the Department of Agriculture was on notice of the irregular activities on the part of Cowart as early as 1949, and again in June 1950, and could have caused an adequate investigation to be made which should have uncovered irregularities on the part of Cowart and resulted in his dismissal a long time prior to when the action was taken based upon an investigation of another Government agency. The toleration of such activities as Cowart engaged in as a Government employee is inexcusable.

C. D. Walker, Director, Cotton Branch

The Cotton Branch has the responsibility for the storage of cotton. C. D. Walker, Director of that Branch, testified before this committee. Mr. Walker displayed a startling lack of knowledge of the functions and operations of this important Branch, of which he has been in charge since 1946.

Information was received by the committee staff that Walker had furnished advanced information to an Egyptian cotton broker, Loutfy Mansour, of E. Huri & Co., Alexandria, Egypt, with respect to the procurement of long-staple Egyptian cotton under a stockpiling procurement program for the armed services. It was further alleged that by furnishing Mansour with such information and favoring him in the actual purchases of the cotton, which was purchased on a bid basis, Mansour's firm was able to corner the Egyptian market, causing a price rise prior to the date the cotton was purchased and thereby benefiting millions of dollars in additional profits at the expense of the United States Government.

Incident to its investigation, the committee determined that the PMA Office of Compliance and Investigation had already made an inquiry into this matter. Requests for the investigation report were refused on the following grounds: (1) That much of the information involved in the case was classified, or confidential, in that it related to military stockpiling; (2) that the report contained opinions (this was later refuted); and (3) that the President's Executive order with respect to furnishing information on loyalty of Government employees, extended by a later press release which included investigations, would not permit. Eventually, the committee was able to obtain from the Department a signed statement from Walker (exhibit 54, record, p. 1224), and Harold Mesibov, Compliance Officer of the PMA Office of Compliance and Investigation, who conducted the investigation of Walker, was permitted to testify. From Mesibov, Walker, and other witnesses, the following facts were developed: That the Cotton Branch of the Department had made large purchases of Egyptian long staple cotton in February 1951, and again on December 3, 1951, on behalf of the Munitions Board, for stockpiling purposes; that Mansour's firm had sold between 35 and 40 percent of the total amount purchased by CCC in the February transaction, and between 75 and 80 percent of the cotton purchased December 3; that Mansour's firm sold approximately $20,000,000 worth of cotton to the Department in February 1951, and $17,000,000

worth on December 3, 1951; that Walker and Mansour were on very friendly terms and had exchanged gifts, Walker giving Mansour a hand-made illuminated picture, which he valued at approximately $1,000 and receiving Egyptian antique glassware and bric-a-brac allegedly costing approximately $700, but having a value of possibly 5 to 10 times that much in this country; that, on occasion, on the day of the bidding, Mansour, after visiting in Walker's office, would have Walker's secretary insert the amount of his company's bid on a previously prepared bid form; and that such bids were the low and successful bids.

It was further developed that Walker, in the summer of 1951, introduced a local broker, Dyke Cullum, to Mansour for the purpose of having Cullum represent Mansour in this country, as Mansour was returning to Egypt; that, thereafter, Walker furnished Cullum, for forwarding to Mansour, confidential information with respect to CCC's plans for buying cotton; that in the fall of 1951, after Mansour had fired Cullum, there was an exchange of cablegrams between Mansour and Walker, which appeared to be in code and appeared to contain information with respect to when the Department would entertain bids for additional purchases as well as other confidential facts. It is indicated that by the advance information which Walker furnished, Mansour's firm was able to corner the market on Egyptian long staple cotton, which rose approximately 26 cents per pound during the 6 weeks prior to CCC's purchase on December 3, 1951 (see exhibit 50 (c), record, p. 1195, and also CCC's exhibit 50 (b), record, p. 1194, reflecting a lesser rise, but erroneously based on January futures alone), thus permitting said firm to make additional millions in profits in its sale of the cotton to CCC. There was evidence that Walker obtained approval of specifications on particular types of cotton which Mansour's firm held; that he solicited his chief in PMA to purchase cotton from Mansour on a negotiated basis, rather than on an open bid basis; and that he rigged the specifications on the December 3 purchase for the purpose of excluding long staple cotton held by other firms.

The committee unanimously referred the case to the Department of Justice. Walker resigned from the Department and it is understood that the Agriculture Department also referred its investigation report on Walker to the Justice Department. The Secretary of Agriculture, in commenting on Walker's activities, stated that if Walker had been working for a private firm he would have received a bonus as he saved the Government money in that the bid price of Mansour's firm at which the cotton was purchased on December 3 was 2 or 3 cents a pound below the quotations on the Egyptian market on that date. The committee believes that if it had been possible for the Secretary to attend all the hearings which related to the purchase of Egyptian cotton, he could not possibly have reached this conclusion. Regardless of whether or not the CCC bought cotton at slightly under the Egyptian market price for the days in question the committee can reach no other conclusion from the facts developed than that Mr. Walker, a high official of the Department, by breaching every trust of his office, may have cost the Government millions of dollars.

Fred D. Entermille, Deputy Director, Grain Branch

Mr. Entermille has been employed by the Department of Agriculture since 1939 and has held his present position as Deputy Director or Assistant Director of the Grain Branch since 1946. Among other

things, he is responsible for rice and beans. In 1948, he took part in the formulation and administration of the 1948 Rice Bulletin. This bulletin did not conform with bulletins covering price support on other commodities, such as beans, in that it permitted producer cooperatives certain latitudes in dealing with nonmember ineligible rice. Entermille was on friendly terms with officials of the California Rice Growers Association, the predominant cooperative in the rice field. It was Entermille, in the summer of 1948, prior to the issuance of the 1948 Rice Bulletin, who reviewed the terms of a draft of this bulletin with officials of the California Rice Growers Association (exhibit 39, p. 945). There is evidence that Harry Creech, attorney for the rice interests in California, was a frequent visitor at Entermille's Washington office.

Under the 1948 price-support program, the California Rice Growers Association, on January 26, 1949, entered into a purchase agreement with CCC whereby the association, representing a group of producers, could sell CCC a maximum of 600,000 hundredweight of 1948 crop rough rice at support price. On May 26, 1949, the association notified their county PMA office of its intention to deliver this amount of rice under the price-support program, but on the same date, the association manager wrote Mr. Entermille, stating that it was their understanding that they could still sell the rice elsewhere, and that CCC could issue no delivery instructions without their consent. On July 26, 1949, a milling contract between the CCC and the Rice Growers Association was entered into, on Entermille's instructions, wherein the association would deliver and be paid for an estimated amount equivalent to milled rice, 425,584 hundredweight, for the 600,000 hundredweight of rough rice. This was a decided departure from the terms of the bulletin and obviated the necessity of the association delivering for inspection, grading, and weighing rough rice. This change of instructions permitted the fraud which it will be shown was perpetrated. This was the only rice taken over by CCC under the 1948 price-support program. The California Rice Growers Association was paid $6.85 per hundredweight for milled rice, which included $1.33 per hundredweight for milling. CCC found itself with this inventory on its hands and, at a later date, was compelled to sell it to the Army for $5 per hundredweight, incurring a book loss of $731,000, the difference between what it paid for the rice and what it sold it to the Army.

Subsequently, the FBI, incident to an antitrust investigation of the California Rice Growers Association, and others, discovered that approximately 85 percent of the rice taken over by CCC had been obtained from commercial mills under options entered into May 26, 1951, the same date as the notice of intention to deliver; that it was ineligible rice; that the rice had never been in the possession of the California Rice Growers Association, and that it was inferior rice left over as a tag end to the 1948 crop. Indictments were returned in the United States District Court for the Northern District of California against the Rice Growers Association, and others, for antitrust violations, and against the Rice Growers Association for defrauding the Government in the amount of $731,000 through the delivery of ineligible rice under the price-support program.

Mr. Entermille was called as a court witness at the antitrust trial, which was held in California in December 1951, and resulted in an acquittal for the defendants. One of the issues which appeared to

be involved was whether the Rice Growers Association delivered this rice to CCC at CCC's request and because of the international emergency, or whether by fraudulent collusion with the commercial mills they unloaded the ineligible rice on the Government.

As a basis for his contention at the trial that this rice was needed in the fight against communism, and that he was urging the association to deliver the rice, Entermille testified that he was having almost daily conversations with the State Department and others as to how soon he could get the rice. The record of his testimony at the antitrust trial shows Entermille saying:

> Now all during this time from say the 1st of May on we were having almost daily conversations with the State Department and others as to how soon, that is to say, this was touch and go, how soon we can get this, is it available?

Another portion of his testimony on the antitrust trial shows Entermille declaring that it was pretty common knowledge that he wanted to get this rice milled and sent to China and when he told the State Department that he was going to have the rice ready, they were very pleased. At another point, he confirmed that the State Department was importuning him almost daily about this matter.

Correspondence was introduced before the committee indicating that the Department of Agriculture had been advised of the deteriorating Chinese situation in May of 1949, and that in June 1949 a letter was written by Mr. Edward Kunze, of ECA, to Mr. Joseph Long, Chief of the Foreign Supply Division, PMA, Department of Agriculture, advising him of the ships that had been rerouted by the ECA China mission to Japan due to the impossibilities of discharging cargoes at China.

Dr. D. A. Fitzgerald, Acting Associate Director of the Mutual Security Agency, formerly ECA, testified before the committee. He stated that between May 25 and the first 10 days of June 1949, nine ships carrying rice were diverted to Japan as a result of the Communist situation, and that that was the last of the shipments to China. Dr. Fitzgerald stated that after the 22d of July his office had no expectation of shipping rice to China.

Mr. Entermille intimated that he may have been dealing with the International Food Commission at the time he entered into the milling contract with the California Rice Growers Association. However, the testimony shows that for procurement purposes, he had to deal with the people who were actually functioning this program. The IEFC was merely a recommending committee which made allocations for export and import, depending upon the relative needs of individual countries, with no independent authority to impose any of its recommendations on any of its member countries.

Mr. Guy Hope, Acting Officer in charge of Economic Affairs, Office of China Affairs, Department of State, testified that the Treasury had reported as of April 1, 1949, that all payments had been made by them under the China Aid Act of 1948 and the unexpended balance of funds to be used for military purposes had been expended. Mr. Hope further stated that the State Department was not responsible for supplying rice to Nationalist China, and that no record could be found of any conversations taking place with Mr. Entermille for such shipment of rice to China.

Mr. Joseph D. Long, of the Department of Agriculture, testified before the committee. His recollection of the China situation in 1949

coincided with Dr. Fitzgerald's testimony and other evidence received.

The committee has not attempted to resolve the reasons for such conflicts in the testimony of Mr. Entermille, but has referred the matter to the Department of Justice. As indicated, a criminal fraud indictment is presently pending against the California Rice Growers Association in connection with this matter, and civil recoveries have not been, as yet, effected. From all the evidence disclosed, however, the committee is amazed and deeply concerned that a high official in the Department could give such testimony as he gave in the antitrust trial on issues involving the amounts which were involved, and still be performing the highly important functions of his office.

Recommendations

1. The committee assumes that, in view of the recent revocation by the Justice Department of its authority to "screen" criminal cases, that the Department of Agriculture will refer all violations of criminal law to Justice for appropriate action. This revocation is wholeheartedly endorsed by the committee.

2. The Production and Marketing Administration must tighten its administrative procedures all along the line from the Washington headquarters down to the county-office level. It is recommended that consideration be given to having studies made by a public management firm or other qualified persons (such a survey would be only as good as the people making it) with a view to increasing its effectiveness and streamlining its operations.

3. The Commodity Credit Corporation should consider the advisability of expanding and strengthening its Office of Compliance and Investigation, which should be made more autonomous. It should provide that in actual practice this office should report directly to the head of the Production and Marketing Administration, or to the Secretary of Agriculture, if that is necessary. It should be provided with adequate funds and authority to make more certain the detection and, more important, the prevention of improper practices on the part of companies doing business with CCC. The Office of C. and I. should have the authority to make legal and factual recommendations on cases which it has developed. It should be charged with greater responsibility in conducting more of the survey type of investigation to effect better internal checks and controls. There is an important area of the operation of the CCC not reached by audit or other administrative control which the C. and I. should cover.

4. CCC should discontinue its former practice of having its operating personnel determine whether facts in a particular case suggesting criminal violations be further investigated and should uniformly refer such matters to the PMA Office of C. and I. for appropriate action. State and county offices of the PMA should be included in such an instruction.

5. In the large-scale purchase and sales programs of the CCC, as well as in its many other operations, there is great opportunity and temptation for wrongdoing. To protect its employees from suspicion and possible criticism, as well as to protect the Government, sound and more effective practical checks and controls should be established

to prevent, insofar as possible, the opportunity of favoritism and improprieties.

6. A more effective and forthright personnel policy must be adopted by CCC to provide prompt disciplinary and prosecutive action of such of its personnel who have engaged in infractions of its regulations and violations of the law. Only by such action can the reputations of the vast majority of its honest and loyal employees be protected.

7. A more direct line of authority and coordination of activities and responsibilities must be effected between the regional commodity offices and the county-State PMA committees.

8. It is recommended that an impartial committee consisting of representatives from the Offices of the Solicitor, Compliance and Investigation, and Audit, as well as a cross section of the management personnel, be established to review particular price-support and other programs being instituted by the various branches of PMA for the purpose of making such programs consistent with the over-all objectives of the CCC as provided by law, and to reduce to a minimum the loopholes and opportunities for enrichment of particular groups, such as processors, etc. There is great variance in the methods employed by CCC in its programs of price support and attendant functions of storage and processing. This, to a considerable extent, is dictated by the unique conditions and requirements with respect to particular crops. However, inequities are prevalent in some of the programs which are often attributable to the official in charge of a program or "special interest" groups, and which do not appear to be consistent with the best interests of all producers involved or to the Government.

9. Although CCC has made some improvements with respect to its inspection procedures since the beginning of the hearings by this committee, there should be a further strengthening of the CCC inspection services and greater coordination of effort between the various inspection services, including the United States Warehouse Act inspectors. The PMA Office of C. and I. and the Office of Audit, to the extent practicable, should be coordinated into such an inspection service. Consideration should be given to instituting a training program for inspectors by properly qualified instructors, which training program should reach personnel being used as grain inspectors at the PMA county and State level.

10. Preinspection should be made of warehouse facilities, not only for the adequacy of the storage space, but adequacy of equipment and experienced personnel. There should be a provision to require submission of financial statements by warehousemen which have been certified to by a CPA or, in lieu thereof, a credit report obtained.

11. In connection with inspection procedures, a further study of the respective State warehousing laws should be made, and procedures adopted to compensate for those States having weak laws and administration.

12. Uniform operating procedures should be adopted in the various regional field offices. Periodic reports on operations reflecting the status of loading orders, the status of grain going out of condition, etc., should be required.

13. An inventory control system should be installed which will more accurately reflect losses and reasons therefor, and which will provide for the moving of grain, first, which is starting to go out of

condition, or which has been stored under given circumstances for such a period as to make it advisable to move it.

14. Competent experts should be employed from the business field to direct warehousing and inventory care and control, as well as other specialized fields in order to provide a better balance of administrative talent.

15. A number of changes have come about in the procedures of CCC since the inception of the committee's investigation. These include stopping the practice of "screening" criminal cases, more grain inspections, strengthening the uniform-grain-storage agreement, insisting upon more of the commingled type of grain storage, improving the bonding requirements for commercial warehouses, strengthening the warehouse-approval procedures, and reporting a host of cases to the Department of Justice and pushing prosecution. It has also been indicated that CCC was planning to do something about inventory control and the strengthening of its Office of Compliance and Investigation. From all the facts, it might appear that they have been "put on their toes" generally. However, in view of the ramified nature of the deficiencies encountered, and in order that the committee may be kept apprised of the progress being made, it is suggested that CCC report back to the committee not later than April 1, 1953, with respect to the action taken upon the committee's recommendations, of progress being made, and the status at that time of such matters as recoveries made in conversion and deterioration cases, additional conversion cases which have been established, and other matters covered by this report.

16. It is recommended that the General Accounting Office continue to keep in close touch with the committee to the end that all findings by it of any irregularities in the operation of the CCC be reported promptly.

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